CURRENT VOICE

SaskWater 2003 Annual Report

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Current Voice, SaskWater's 2003 Annual Report, includes testimonials in the words of our employees and customers. These are the voices that drive The Quality Advantage and that make SaskWater what it is.

Letter of Transmittal

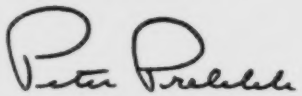
Regina, Saskatchewan
March 31, 2004

To Her Honour
The Honourable Lynda Haverstock
Lieutenant Governor of the Province of Saskatchewan

Dear Lieutenant Governor:

I have the honour to submit herewith the annual report of SaskWater for the year ending December 31, 2003. The annual report includes the financial statements, duly certified by auditors for the corporation, in the form approved by Crown Investments Corporation, and in accordance with **The Saskatchewan Water Corporation Act**.

Respectfully submitted,



Peter Prebble
Minister Responsible for SaskWater

Hot

"Providing high quality, afford

Minister's Message

It is my pleasure to serve the people of Saskatchewan as Minister Responsible for SaskWater.

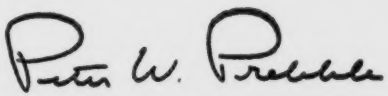
In April 2002, our government launched Saskatchewan's Drinking Water Strategy designed to protect the quality of drinking water provided to our residents. The strategy included means to protect the quality of water sources—a responsibility entrusted to Saskatchewan Watershed Authority—and enhanced regulation, driven by legislation administered by Saskatchewan Environment. The strategy also created a new SaskWater, a Crown water utility that would be available to provide communities with options for quality water and wastewater services on a commercial basis. SaskWater is fostering a regional and cooperative approach to service delivery as a way of providing communities with access to good quality water at affordable prices. It is also important to the people of Saskatchewan that SaskWater's services be offered at commercial, competitive rates—illustrating the value that water has as a vital resource. SaskWater's commercial rates enable the company to provide continuous monitoring of water quality and to implement asset management plans that protect investments made in capital-intensive infrastructure.

All of our provincial Crowns play important roles in the lives of Saskatchewan people by providing high quality, affordable services to a widely dispersed population. SaskWater demonstrates this well, as the Crown water utility, providing a service that is not only important, but essential to life.

SaskWater is turning challenges into opportunities. By expanding its regional water pipeline systems and extending its certified operation and maintenance services to municipally-owned facilities, the Crown now serves 48 communities and 36 industrial customers as well as numerous individual rural households.

I look forward to SaskWater's future and I thank management and employees for the important work they are doing.

Sincerely



Peter Prebble
Minister Responsible for SaskWater

"Our people know their contribu

President's Message

This past year was the first complete business year for the "new SaskWater" and I'm pleased to say it has been a successful one. Sales volumes of water were 11% higher than in the previous year as a result of increased demand from existing customers and new customers who came on-line during the year. While the company posted a loss this year, we are on track to reduce losses in 2004 and to achieve profitability over the next four years.

2003 was also a successful year with our accomplishments in customer acquisition and service. We added new customers in all lines of business, achieving our customer growth targets for the year. Our new customers represent better than a 10% increase in our municipal customer base. The full impact of these new customers on our revenues will be felt in 2004.

Our customer satisfaction survey for 2003 provided much positive feedback—overall our customers gave us an average score of 8 out of a possible 10. We believe this score reflects the relationships that SaskWater employees have established with customers over the twenty or more years the company has been supplying high quality water to communities and businesses. Our focus now is to establish similar relationships with customers in our new business of certified operations and maintenance (O&M) under contract. This new service line provides municipalities with the option of continuing to own their water and wastewater utility while contracting SaskWater to provide certified operation and maintenance. The service provides several benefits to local residents and the communities' elected leadership, including our commitment to Total Quality Water Management and reduced liability for the Council.

Current Voice is the title of our 2003 Annual Report. This report includes the voice of our employees and our customers, sharing with us their current experiences of SaskWater, as an employer and as a service provider. Saskatchewan is the kind of place where a customer's recommendation means a lot. In this report, Mayor Rob Mitchelson, Mayor Lorne Campbell and Ray Minshull, Assistant Station Manager of the Cory Co-generation Power Station offer endorsements of SaskWater's service. We appreciate their good words on our behalf.

I also know that SaskWater is only as good as our employees make it and I know we have some of the best. Certainly, that's what our customers tell us. One of the things I have always appreciated about employees in the public service is that they are characterized by wanting to make a positive difference to Saskatchewan and by wanting to be of service. I certainly find this to be true at SaskWater—our people know their work is essential to our customers.

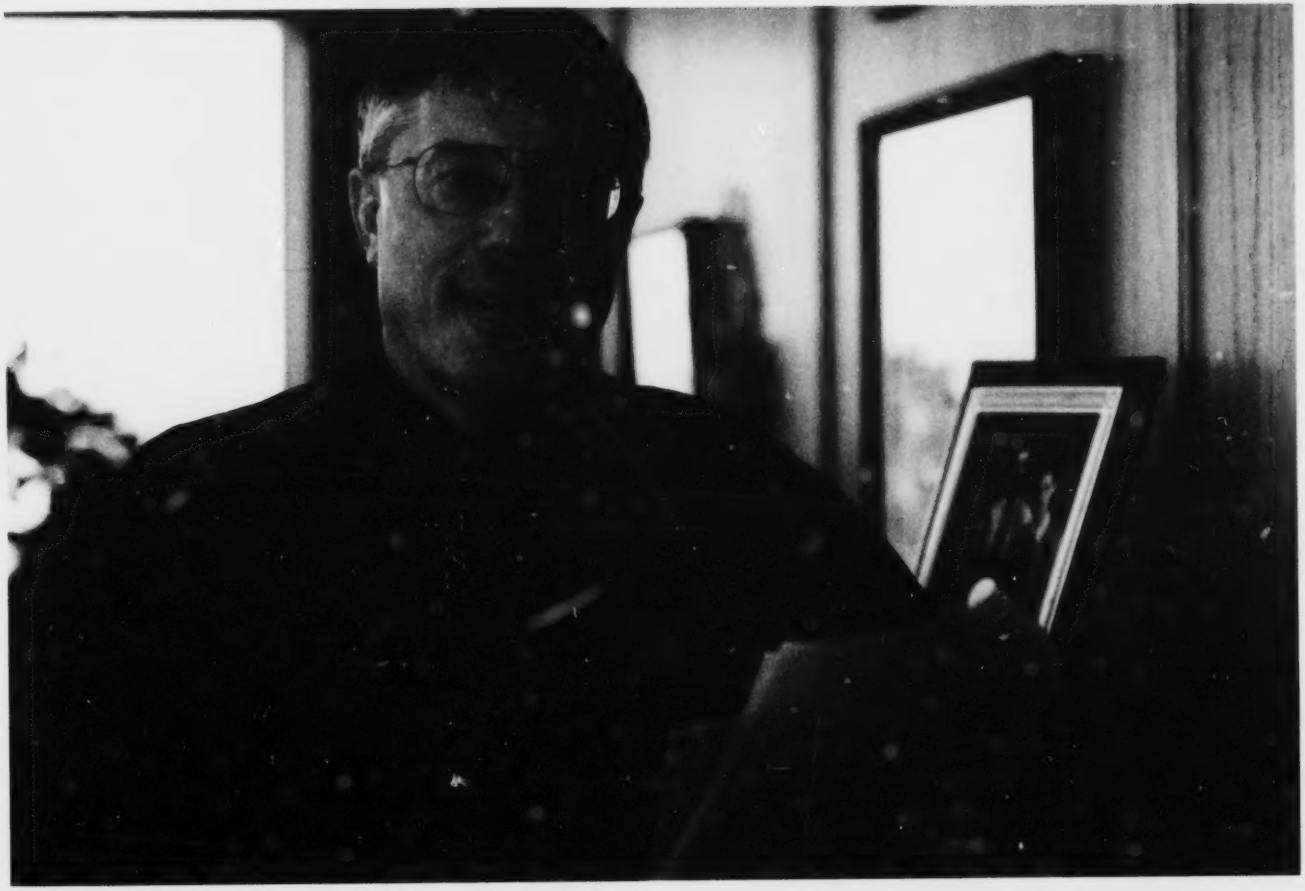
We expect 2004 to be another busy year of growth for SaskWater. We are excited about our role as Saskatchewan's water utility Crown—working as a solutions provider for communities and businesses. Thanks to our employees, we are ready to respond to the water and wastewater needs of our province's people.

Submitted respectfully

Stuart Kramer

Stuart Kramer
President of SaskWater

on is essential to our customers"



"SaskWater recognizes and

As a Water and Wastewater Engineering Specialist Vicki performs consulting studies for waterworks system assessments and is responsible for implementing the SUMA Waterworks System Assessment program for Saskatchewan communities.
"As a growing company, SaskWater provides great career opportunities for young professionals."
Vicki Campbell
Senior Project Engineer,
Water & Wastewater, Moose Jaw

Corporate Profile

Corporate Profile

SaskWater is a Total Quality Water Management (TQWM) company that provides competitively-priced, customer-focussed, quality water and wastewater services. Our Total Quality Water Management strategy recognizes that our products and services are essential to life and that our customers' expectations are high.

SaskWater designs, builds, owns and operates water supply and wastewater systems providing quality water and cost-effective wastewater treatment that meets or exceeds regulatory requirements. SaskWater also operates and maintains customer-owned systems. Our turn-key solutions, complete with financing options, serve to maximize drinking water quality and minimize risk and liability.

SaskWater builds relationships with municipal, industrial, government and individual household customers. Our goal in implementing Total Quality Water Management is to ensure that every aspect of the quality water chain works toward achieving customer satisfaction.

Employees

Headquartered in Moose Jaw, SaskWater has approximately 70 permanent employees and offices in Watrous and Prince Albert, with operating districts in Gravelbourg, White City, Saskatoon, Hanley, Wakaw and Melfort. Average operating revenue per employee of $200,000 compares favourably to other Crowns and water utilities.

Vision

To be Saskatchewan's leader in delivering water and wastewater services, building customer, employee and shareholder value through partnerships and quality management.

Mission

To provide competitively-priced, customer-focussed, quality, water and wastewater services.

Values

Honesty and integrity are the foundation of our company and we conduct our business in a manner consistent with the highest ethical standards.

Open communication within our Executive and between Executive and employees is vital to our success.

We are committed to excellence and quality in everything we do.

We demonstrate good corporate citizenship by caring for the environment and the communities in which we operate.

Principles

Partnership—SaskWater's partnerships are key to its growth. We partner with our customers, businesses, engineering firms and suppliers.

Value—We deliver and recognize value. For customers, we provide value with competitive pricing and superior service and products. We recognize the value of our employees and treat them as key assets. We deliver value to the business with innovative, proven technology and value engineering.

"Everyone has a voice at SaskWater

Corporate Profile continued

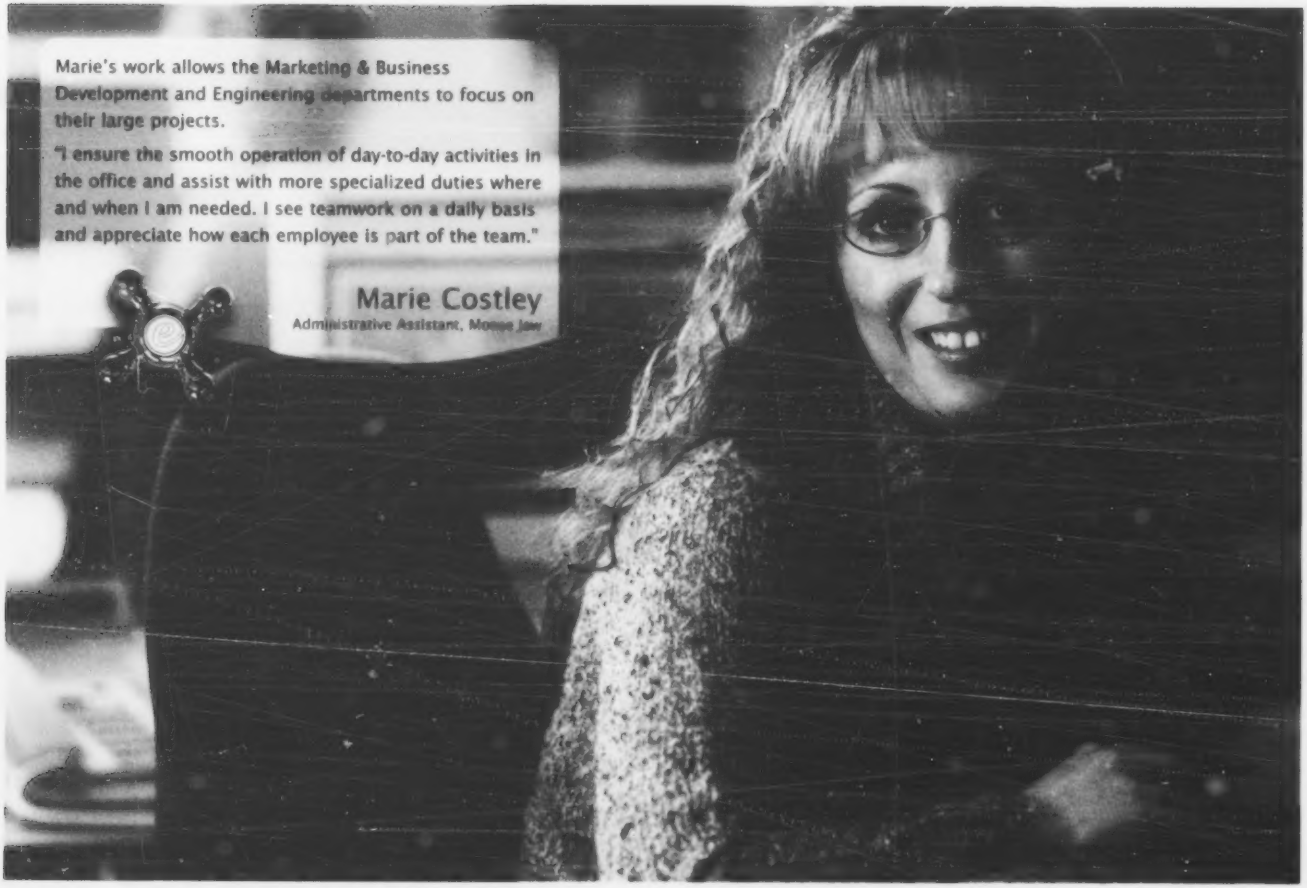
Trust—built through quality management of our operations, of systems we design and in our management and governance.

Customers

SaskWater owns 6 water treatment plants and over 760 kms of pipeline. The company provides water (treated and untreated) to:

- 48 municipal customers
- 36 industrial customers
- 42 public water boards, user groups, co-operatives and pipeline associations that supply water to about 1140 rural households and farms
- 330 individual households.

SaskWater also provides certified operations and maintenance for water and wastewater systems to 6 municipal customers, owns and operates a regional wastewater treatment facility serving three customers near Nipawin, and a municipal wastewater facility serving Pierceland.


Marie's work allows the Marketing & Business Development and Engineering departments to focus on their large projects.
"I ensure the smooth operation of day-to-day activities in the office and assist with more specialized duties where and when I am needed. I see teamwork on a daily basis and appreciate how each employee is part of the team."
Marie Costley
Administrative Assistant, Moose Jaw

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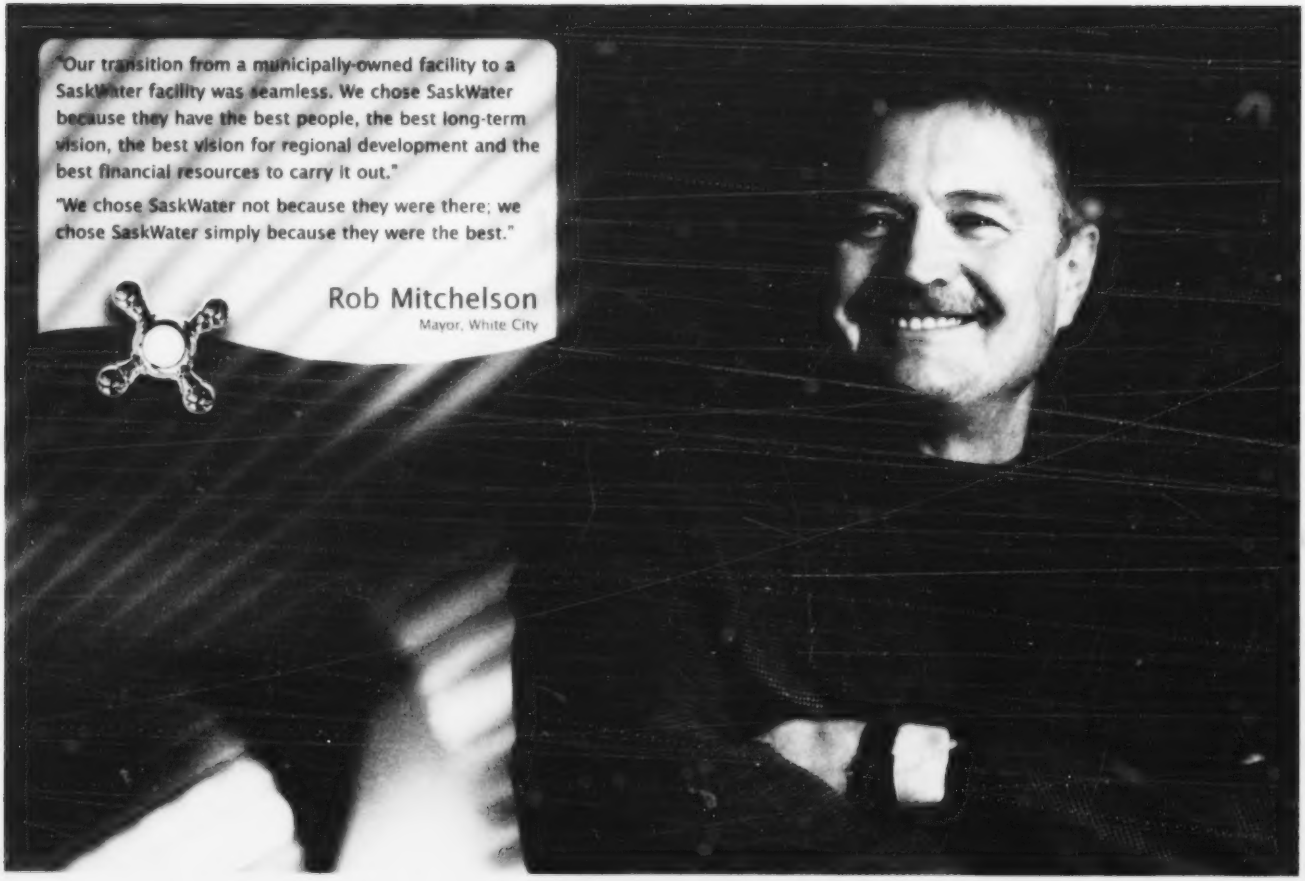
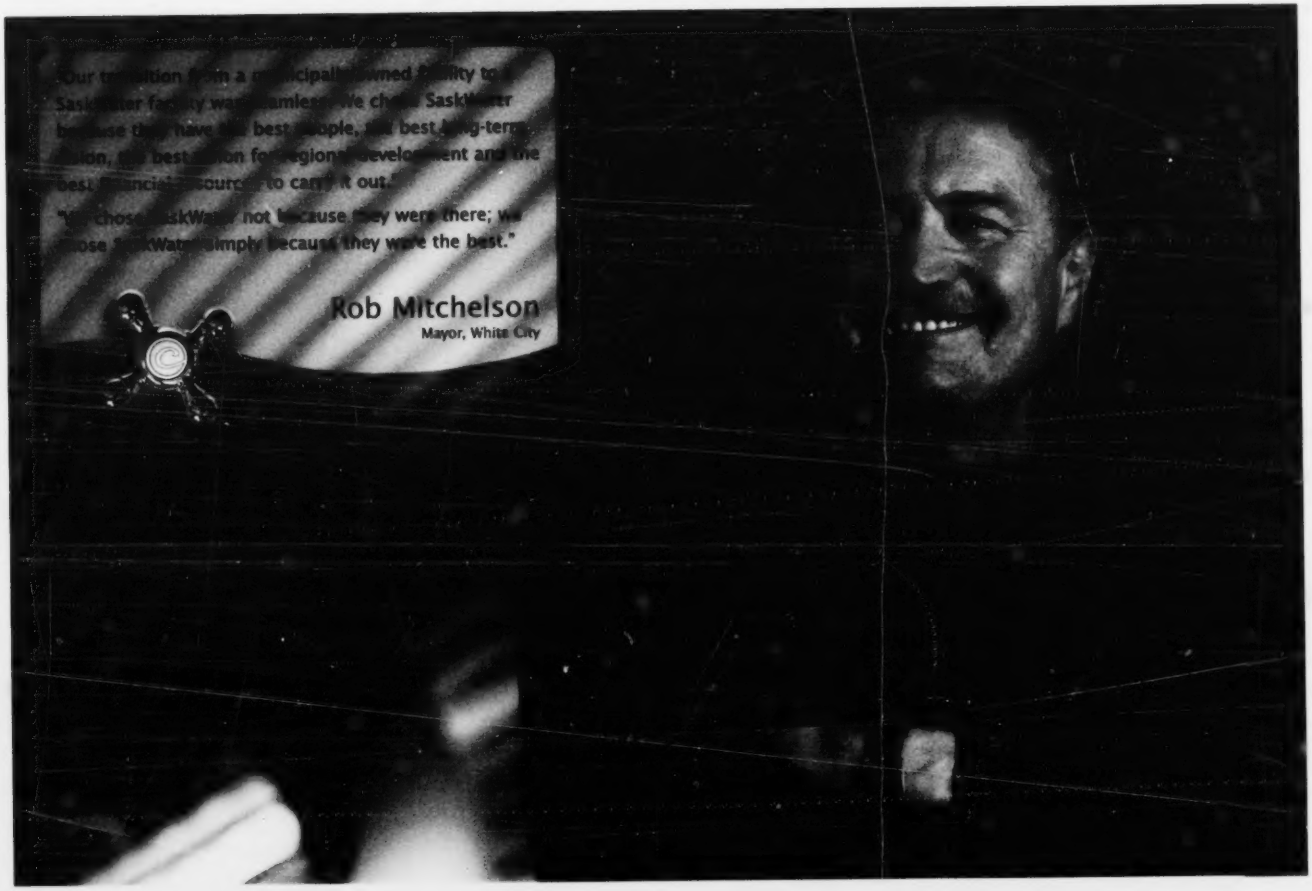
Marie Costley

Administrative Assistant, Moose Jaw


"Our transition from a municipally-owned facility to a SaskWater facility was seamless. We chose SaskWater because they have the best people, the best long-term vision, the best vision for regional development and the best financial resources to carry it out."
"We chose SaskWater not because they were there; we chose SaskWater simply because they were the best."
Rob Mitchelson
Mayor, White City

"We chose to work with SaskWate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Rob Mitchelson
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2003 Highlights and the Year Ahead

SaskWater met its growth targets for 2003, adding new customers in all lines of business; investing $3.2M in new infrastructure to serve new customers and advancing its "cluster strategy" of establishing regional offices in growth areas of the province. Our customers' response to a satisfaction survey was very positive and strategic partnerships with Saskatchewan Urban Municipalities Association (SUMA) and Consulting Engineers of Saskatchewan (CES) continued to mature and prove their value.

Core Business

SaskWater's core business (water treatment and transmission) grew with the addition of new treated water customers, including Cudworth, Star City, Star City Colony and White City. We invested $1.8M to expand the company's regional supply system in the Melfort region, supplying high quality water to Star City and the nearby Hutterite Colony. A $270K expansion to SaskWater's regional system near Cudworth brought treated water to the Town of Cudworth. Late in 2003, SaskWater and White City announced a new partnership agreement that saw the company purchase the town's water treatment plant and other facilities for $760,000 and establish a regional office in White City. Acquiring the White City facility will allow us to further our cluster strategy in this growing area east of Regina. Our cluster strategy establishes regional anchors from which water services are delivered, and produces economies of scale and scope resulting in cost efficient, effective delivery of services.

New Business

Certified Operation and Maintenance

SaskWater launched a new line of services in 2002, providing certified operation and maintenance (O&M) for municipal customers. Municipalities can contract SaskWater to provide certified operation & maintenance of their municipally-owned water and wasterwater utility. In 2003, we acquired four new customers for this service—Star City, White City, Paynton and Halbrite.

Project Management Services

SaskWater offers management of water infrastructure projects on behalf of municipal customers. In 2003, our new customers included Jackfish Lake West (Meota), Chitek Lake, Killaly, Tobin Lake, Water West Pipeline Group and the Saskatchewan Landing Pipeline Group.

For the latter two groups SaskWater produced feasibility studies by working closely with Prairie Farm Rehabilitation Administration and the many towns and municipalities involved in the projects. The Water West Project in the Kindersley—Kerrobert area and the Saskatchewan Landing Project in Kyle—Rosetown areas involve bringing water from Lake Diefenbaker, the South Saskatchewan River or nearby aquifers for drinking, livestock and commercial development. We will continue working with these customers to advance these projects on a commercial basis.

Partnerships

In 2003, SaskWater and the Saskatchewan Urban Municipalities Association formally announced their new partnership. SUMA members are a key market for water and wastewater services, making SUMA's endorsement of SaskWater of significant value to the corporation. This partnership provides a means for SUMA to offer a single package of water-related services and solutions tailor-made for the needs of Saskatchewan municipalities.

"A reliable supply of water is es

2003 Highlights and the Year Ahead, continued

The Memorandum of Understanding between the Consulting Engineers of Saskatchewan (CES) and SaskWater guides the business relationship between our two organizations—SaskWater contracts the design and build of the majority of its water infrastructure projects to CES members.

Customer Satisfaction

In 2003, SaskWater asked its customers a number of questions about how satisfied they were with our service. Their response was very positive. Our questions ranged from whether our service provided good value for their money, to whether they were satisfied with our customer service, and the quality of the water we produced for them, as well as whether they would be likely to recommend us as a service-provider to others. We're happy to say that on a scale of one to ten, our customers gave us an "8".

Remote Monitoring

SaskWater is installing remote monitoring equipment in all the water treatment facilities and pump stations it operates. SaskWater now has 15 remote monitoring systems in use, improving service and reducing risk to customers. Remote monitoring provides an additional level of protection for customers and end users by observing key water treatment and supply processes on a 24/7 basis. Any alarm situation is immediately identified and SaskWater's certified operators are notified so they can respond effectively.

2004 Outlook

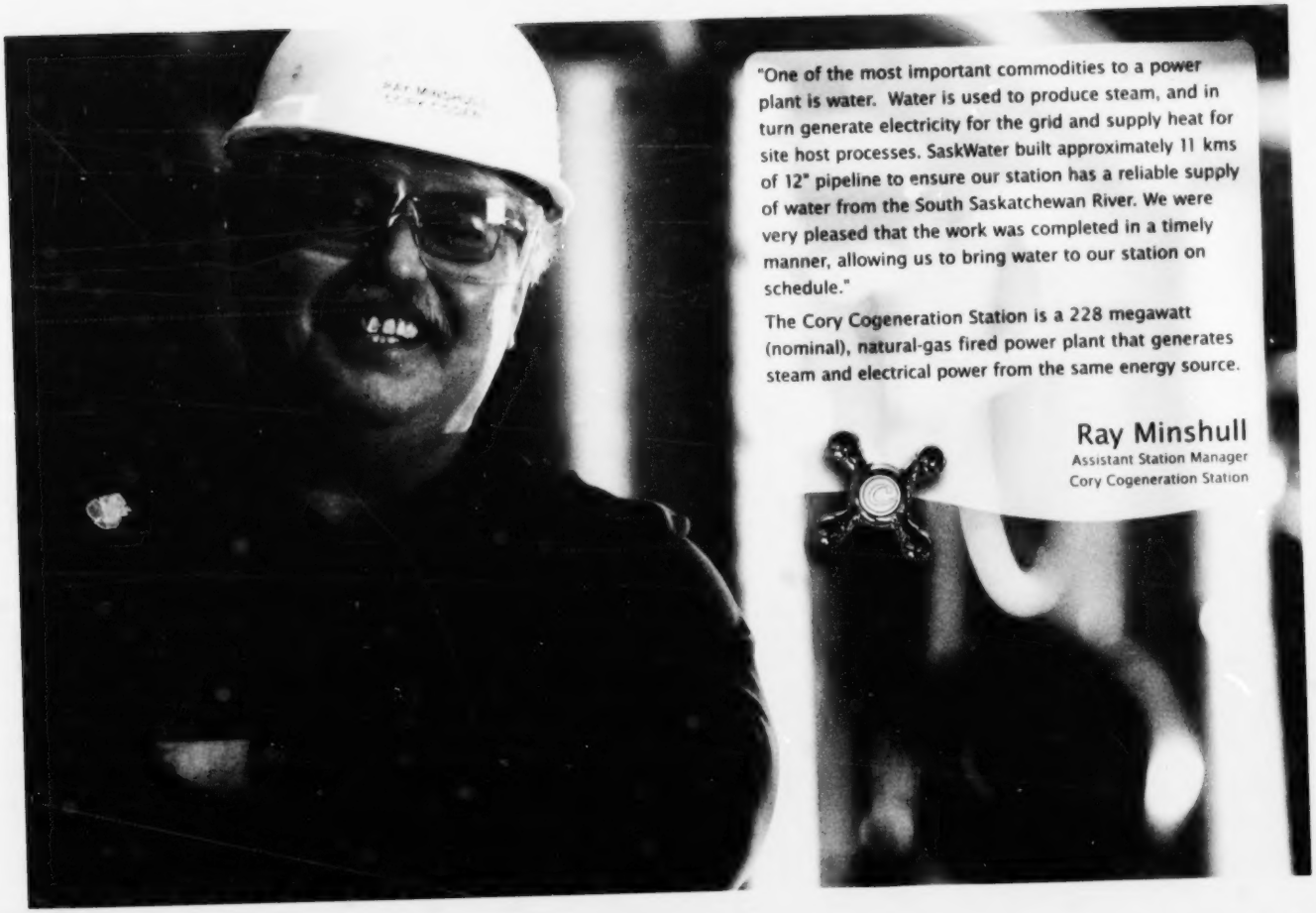
Enhanced regulation is one of the pillars of the provincial safe drinking water strategy announced by the government in 2002. The importance and need for comprehensive regulation was emphasized to Canadians when incidents of human illness and fatalities associated with contaminated drinking water occurred in the country several years ago. The entire package of enhanced provincial regulatory requirements for water and wastewater operations will come into force later this year in Saskatchewan.

SaskWater believes the company can meet increased demand for water and wastewater services from municipal customers through:

- further implementation of proven technologies that will reduce "hands-on" requirements in treatment plants while ensuring quality control is maintained
- further development of service clusters for cost-effective delivery of service to customers
- ensuring the company has the people and the training to meet anticipated demand for services.

SaskWater expects to invest $8.5M in water infrastructure projects in the province in 2004. Investments include upgrades to the Gravelbourg and Edenwold water treatment plants, and additional water supply for the Regina East area. SaskWater will also begin construction of the Echo Regional Wastewater System in 2004, slated for completion in spring, 2005. Investments for industrial water supply in 2004 include construction of a booster pump station to meet additional water requirements of the Agrium potash mine.

Business development at SaskWater is guided by the company's commitment to Total Quality Water Management (TQWM). Another focus in 2004 will be further defining and implementing "quality" from the perspective of SaskWater's customers and employees. SaskWater has already aligned its seven balanced scorecard measures with the TWQM framework, helping to ensure that key priorities are linked to operational planning.

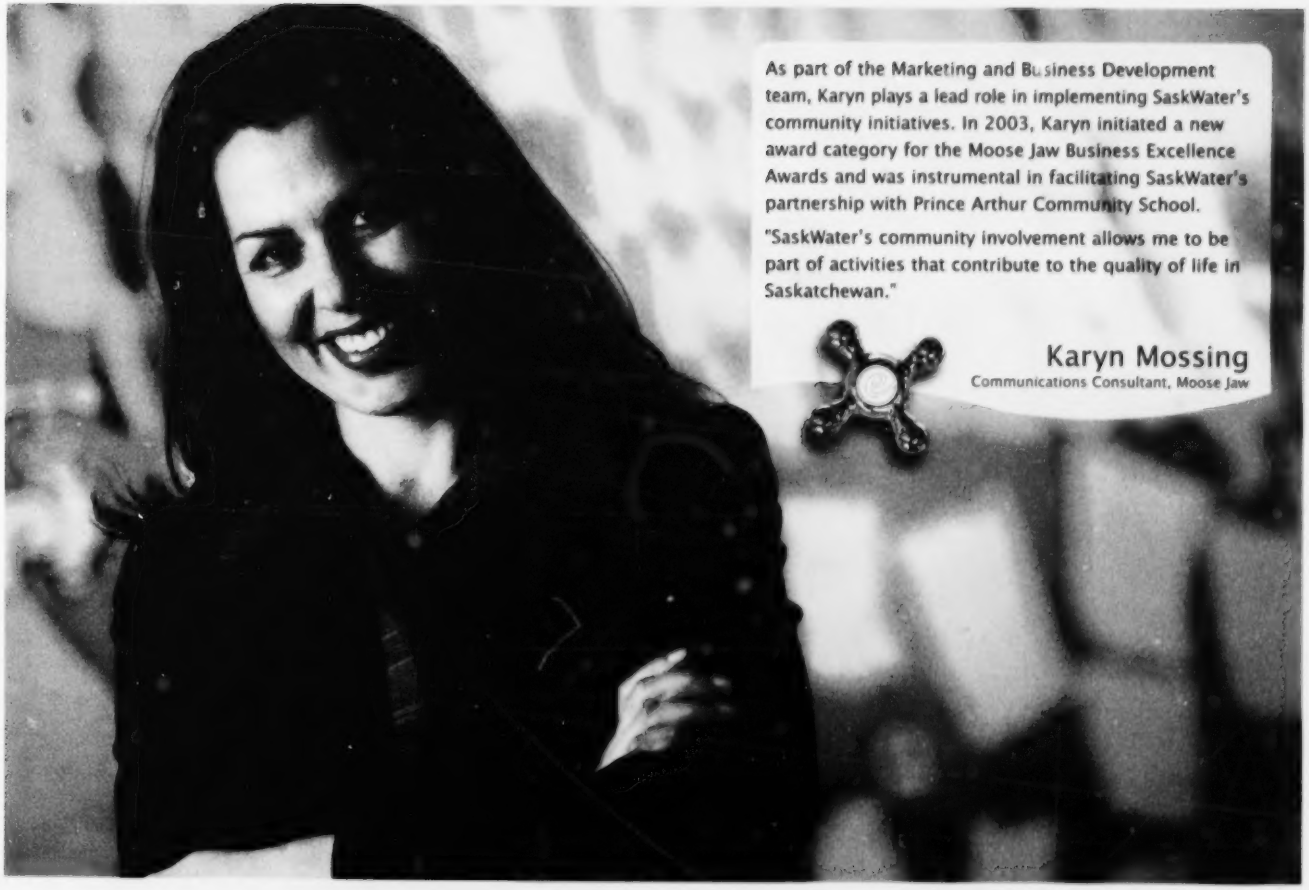


"One of the most important commodities to a power plant is water. Water is used to produce steam, and in turn generate electricity for the grid and supply heat for site host processes. SaskWater built approximately 11 kms of 12" pipeline to ensure our station has a reliable supply of water from the South Saskatchewan River. We were very pleased that the work was completed in a timely manner, allowing us to bring water to our station on schedule."

The Cory Cogeneration Station is a 228 megawatt (nominal), natural-gas fired power plant that generates steam and electrical power from the same energy source.

Ray Minshull
Assistant Station Manager
Cory Cogeneration Station

"SaskWater encourages entrep



As part of the Marketing and Business Development team, Karyn plays a lead role in implementing SaskWater's community initiatives. In 2003, Karyn initiated a new award category for the Moose Jaw Business Excellence Awards and was instrumental in facilitating SaskWater's partnership with Prince Arthur Community School.

"SaskWater's community involvement allows me to be part of activities that contribute to the quality of life in Saskatchewan."

Karyn Mossing
Communications Consultant, Moose Jaw

Corporate Citizenship

SaskWater's values shape our relationships, business operations and decision-making. We strive to meet the expectations of Saskatchewan people in all that we do.

Diversity

SaskWater values its diverse and professional workforce. We recruit and retain employees from designated equity groups—aboriginal persons, persons with disabilities, women in non-traditional roles and management, and visible minorities.

In 2003, 45% of our new employees belonged to diversity groups.

Education

SaskWater offers 8-month work placements through a co-operative work/education program. In 2003, 6 students from SIAST participated, and one student from the University of Saskatchewan began a 16-month Engineering internship.

SaskWater has made a five-year commitment to both the University of Saskatchewan and the University of Regina to fund an annual $3000 scholarship. The first two scholarships will be awarded in the Fall of 2004.

Economic Contributions

SaskWater employs about 70 permanent, full-time people, actively-involved in eight different communities.

Believing in partnerships, SaskWater has a Memorandum of Understanding for service with the Consulting Engineers of Saskatchewan who employ more than 700 professional and technical support personnel.

In 2003, SaskWater purchased 94 % of its total products and services in Saskatchewan ($4.8M).

The SaskWater Quality Advantage is our commitment to customer service. Our 2003 customer satisfaction survey returned an 80% approval rating. Our customers told us we offered good value for dollars, good response times for questions and concerns and that they would be likely to recommend SaskWater services to others.

Employees

SaskWater recognizes the commitment and dedication of its employees. Each year we recognize employees who reach the milestones of 5, 10, 15, 25, 30, and 35 years of service. In 2003, 12 employees were honored, representing a total of 230 years of combined service.

Recognizing that employees are critical to the company's success, SaskWater holds regular employee conferences to communicate the strategic direction of the company. To enhance employee potential, growth and satisfaction SaskWater has a training budget equivalent to 3% of employee salaries and aims to have 50% of employees receiving annual training.

Union Partnership

We respect our Union partnership. Our Management team meets regularly with the Communications, Energy and Paperworkers Union Local 820 Executive to encourage open communication and a close working relationship. Our Board of Directors includes a position designated for a labour representative chosen by the Union.

"Helping develop social and ec

Corporate Citizenship, continued

Community Investment

SaskWater's community investments are focussed on supporting children and youth and their families in Saskatchewan communities. We are especially interested in supporting causes that assist youth and post-secondary initiatives to help students overcome obstacles and increase their chance of academic and life success.

In 2003, SaskWater demonstrated its commitment to education through its partnership with Prince Arthur Community School. Our $10,000 contribution assists the community school in fostering healthy attitudes, active lifestyles and goal setting.

SaskWater's sponsorship enables Prince Arthur to sustain a school-wide Kindergarten to Grade 8 swimming program. The funding also provided resources to the 'reading-at home' program and purchased individual take-home agenda books for students that help teachers and parents communicate about school activities.

SaskWater also assisted Ecole St. Margaret with their fundraising efforts for the Ryan's Well Foundation, an organization that raises money to drill clean water wells in African communities. Ecole St. Margaret visited with SaskWater employees at their Fall Employee Conference.

SaskWater believes in playing a role in the post secondary education of Saskatchewan youth. In addition to co-operative work placement opportunities, SaskWater was once again a gold sponsor of the annual SIAST Business Dinner giving students the opportunity to meet with local business leaders.

Overall in 2003, SaskWater supported 75 community organizations.

Environmental Integrity

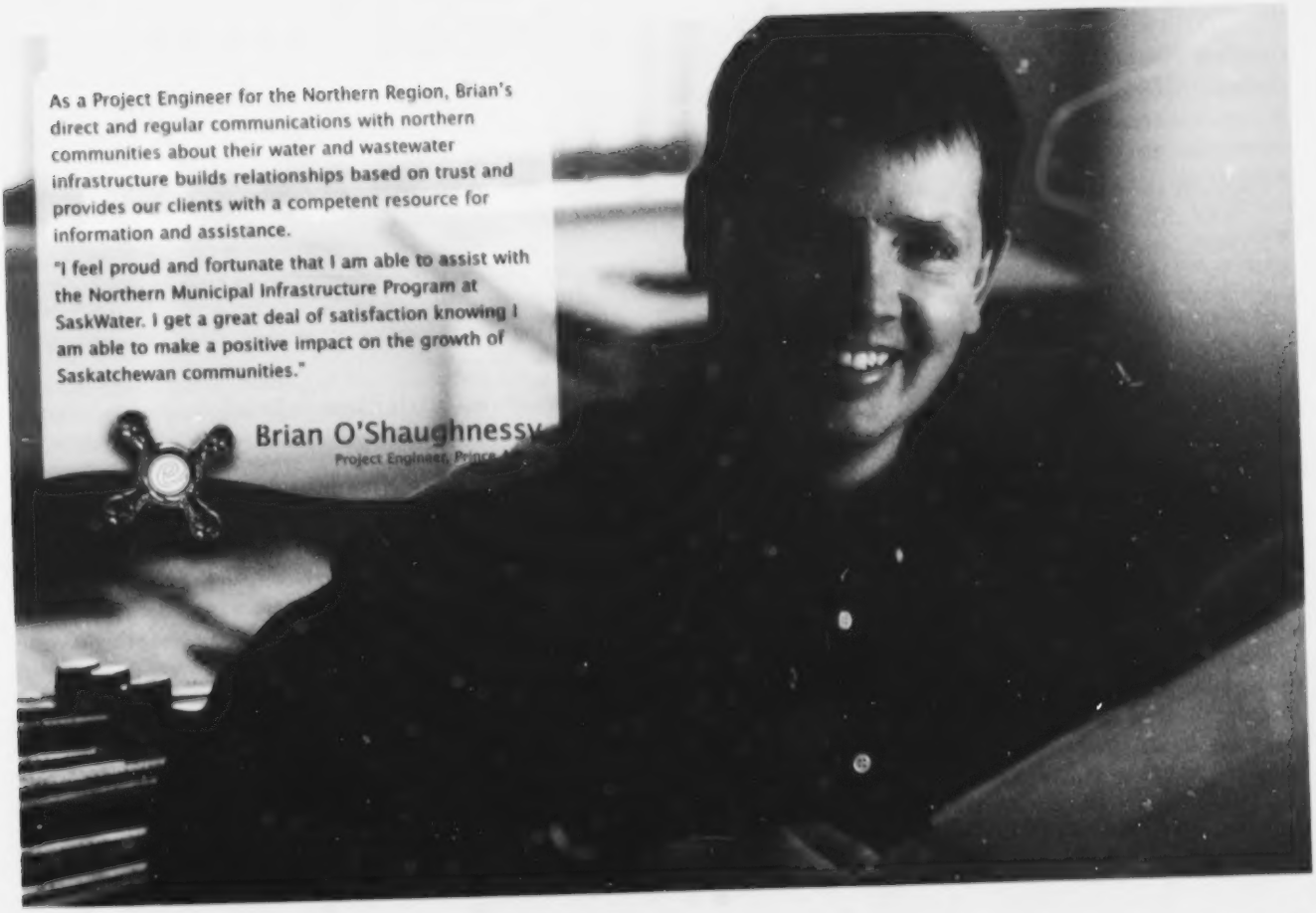
SaskWater is committed to preserving and enriching the environment we inhabit. In 2003, the towns of Fort Qu'Appelle, Fort San, B-Say-Tah and the Rural Municipality of North Qu'appelle signed a project management agreement to begin design work for the SaskWater-Echo Regional Wastewater System. Regional wastewater projects ensure that wastewater effluent being released back into the environment has been properly treated to ensure the protection and safety of major recreational lakes.

In northern Saskatchewan, SaskWater plays a key role in the planning and managing of the design and construction of water and wastewater infrastructure. In an agreement with the Northern Revenue Sharing Trust Account Management Board, SaskWater oversees the provision of safe and secure water supplies and environmentally-acceptable wastewater treatment in the north.

Provincially, SaskWater is a member of the Steering and the Policy and Program Committees of the provincial Safe Drinking Water Strategy. The Strategy is a comprehensive plan of action designed to deal with the risks that affect drinking water and potentially impact the health of Saskatchewan residents.

SaskWater is also interested in supporting organizations that promote environmental causes. In 2003 we supported the University of Saskatchewan Ecology Camps for Kids and we contributed $5000 towards the Craik Eco-Village Sustainable Living Project.

onomic wealth of communities"



As a Project Engineer for the Northern Region, Brian's direct and regular communications with northern communities about their water and wastewater infrastructure builds relationships based on trust and provides our clients with a competent resource for information and assistance.

"I feel proud and fortunate that I am able to assist with the Northern Municipal Infrastructure Program at SaskWater. I get a great deal of satisfaction knowing I am able to make a positive impact on the growth of Saskatchewan communities."

Brian O'Shaughnessy
Project Engineer, Prince

Services

Certified Operation and Maintenance

SaskWater launched Certified Operations and Maintenance (O&M) as a new line of business late in 2002. SaskWater partners with communities to provide certified O&M of their water and wastewater utilities, including water supply, treatment, storage, distribution and wastewater disposal. We also provide customer and regulatory reporting, 24/7 continuous monitoring, emergency planning and customer support services. We work with our customers to determine an appropriate level of service depending on the existing infrastructure and the customer's needs. All services are supervised or performed by certified operators. In 2003, the first full year of offering certified O&M, SaskWater added 4 municipal customers.

Project Management

SaskWater provides customers with new or upgraded water and sewer systems that are functional, yet economical and "operator-friendly". Our experience in working with engineers and contractors and our technical expertise in water and wastewater provides a solid base from which to handle these projects. In addition, the relationships built through years of working with regulators and other provincial agencies ensure that regulatory and land control issues are dealt with efficiently. As a result, in 2003 SaskWater provided project management services to 34 of the 35 communities in the Northern Administration District and initial inspections and technical guidance to 44 municipalities in the southern area of the province. SaskWater managed capital projects of its own worth $3.2M in 2003 and projects worth $1.5M on behalf of municipalities.

In northern Saskatchewan SaskWater plays a key role in planning and managing the design and construction of water and wastewater infrastructure. SaskWater signed an agreement with the Northern Revenue Sharing Trust Account Management Board (NRSTAMB) to provide program management of what has become a six-year $35 million initiative to construct and upgrade the water and wastewater infrastructure in Saskatchewan's 35 northern communities. The program, announced in 2000 by Saskatchewan Government Relations and Aboriginal Affairs, provides safe and secure water supplies and environmentally-acceptable wastewater disposal in the north.

SaskWater services include managing the program budget, technical advice for conceptual and feasibility studies, project management during the design and construction of the facilities, and assistance with start-up and operation. In 2003 SaskWater also responded to 15 water quality and system emergencies in the northern communities on behalf of the NRSTAMB. The work ranged from thawing and repairing frozen water mains in Weyakwin, Michel Village and Beauval, to providing solutions to a boiled water order at Jans Bay, to power surges knocking out the sewage pump station and water treatment plant controls in Patuanak and Sandy Bay.

In 2003 SaskWater provided project management for the design and construction of subdivision lots in northern communities on behalf of the NRSTAMB. Work included the construction of sewer and water mains, telephone, and power for 24 lots in Pinehouse and a 35 lot subdivision in Ile a La Crosse.

Services, continued

In addition to the emergency and subdivision projects, in 2003 SaskWater managed 26 water and sewer construction projects worth $5.8M in 20 northern communities which included a new water supply and treatment system for Bear Creek, a new water booster station in Creighton, well construction and servicing in St. George's Hill, and expansion of the Pinehouse sewage lagoon. SaskWater's role, backed by 20 years of experience in northern engineering, of providing project management and technical advice to northern communities, is vital to the success of the northern program.

Operator Training

SaskWater also works for Indian and Northern Affairs Canada in northern Saskatchewan, providing technical assistance and training for 96 operators on 60 First Nations. SaskWater also provides "hands-on" training for operators preparing for certification.

Wastewater Treatment

Saskwater owns and operates a regional wastewater system near Nipawin and a municipal wastewater disposal system for Pierceland. The regional wastewater system serves the CanAmera Foods canola processing plant, the Town of Nipawin and the Village of Codette. SaskWater invested close to $3 million to build the system which has solved a number of problems for the three customers involved and has resulted in a cleaner river and decreased responsibilities for the customers. In 2004, the corporation will begin construction of a new regional wastewater facility - the SaskWater Echo Regional Wastewater System.

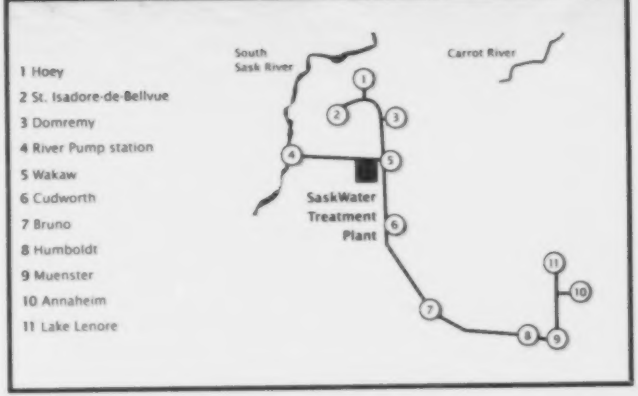
Water Treatment

SaskWater owns and operates six water treatment plants that produced over 2.5 billion litres of quality water in 2003. The average cost? A dime buys 70 litres.

Regional Treatment Systems - Humboldt Area

The regional water system shown in Diagram A begins with a pump station on the South Saskatchewan River west of Wakaw. This station pumps river water through 26 km of raw water pipeline to a water treatment plant just outside Wakaw. The plant employs five

A. SaskWater Regional Treatment System - Humboldt area



full-time operators and includes an on-site laboratory for water analysis. Once produced, the water is delivered to customers through approximately 165 km of pipeline. The system supplies some of the

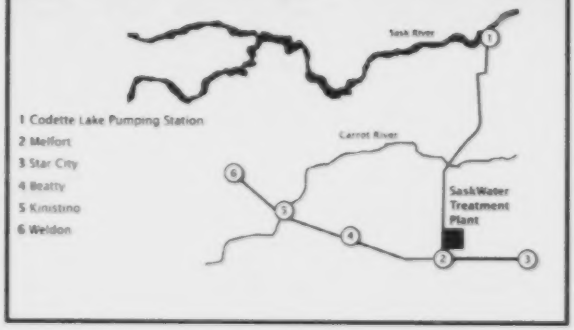
Water Treatment continued

best quality water in the province to almost 9,300 people in ten communities (Hoey, St. Isidore-de-Belleuve, Domremy, Wakaw, Cudworth, Bruno, Humboldt, Muenster, Annaheim and Lake Lenore) and eight rural municipalities (St. Louis, Bayne, Humboldt, Fish Creek, St. Peter, Invergorden, Hoodoo and Lake Lenore). Numerous individual households are also connected to the system. SaskWater invested $26.4M to build this regional system in 1996. In 2003, the corporation completed a $270K expansion which added the Town of Cudworth. SaskWater continues to explore opportunities to add more customers to this regional system.

Regional Treatment Systems - Melfort Area

The regional system shown in Diagram B begins with a pump station on Codette Lake and 52 km of pipeline that delivers river water to the water treatment plant in Melfort.

B: SaskWater Regional Treatment System - Melfort area



SaskWater invested about $1.8 million in 2003 to expand the water supply system and extend service to Star City and Star City Colony. Today, about 67 km of pipeline delivers superior drinking water to four towns in addition to Melfort (Beatty, Kinistino, Weldon and Star City), the Star City Colony, and numerous rural households. About 8,400 people are supplied with water in total.

Stand-alone Treatment Systems

SaskWater owns and operates stand-alone water treatment systems in White City, Gravelbourg, Edenwold and Pierceland.

Late in 2003, SaskWater and White City announced a new partnership agreement that saw SaskWater purchase the town's water treatment plant and other facilities for $760,000. Acquisition of the White City facility allowed SaskWater to further its cluster strategy in this growing area east of Regina. The cluster strategy establishes regional anchors from which water services are delivered, and results in economies of scale and cost efficient delivery of services.

SaskWater invested $1.7M to build the Gravelbourg system in 1997. About 11 kms of pipeline transfers raw water from Thomson Reservoir to the Town where it is treated in SaskWater's $1M plant. SaskWater then provides the water "in bulk" to the Town which operates its own distribution and wastewater system.

SaskWater also owns and operates the water treatment system in the Village of Edenwold. Edenwold's water source is similar to Gravelbourg's—warm and shallow, creating the ideal environment for the growth of organic material. Residents complained about the odour of the treated water. SaskWater was able to make improvements in the treatment system that resulted in improved quality. In the coming year,

Water Treatment continued

SaskWater will make further investments in the system to provide long term improvements in quality and supply.

SaskWater invested $1.2M to build a conventional groundwater (well water) treatment system for the Village of Pierceland, population 450. Working with this customer added groundwater expertise to SaskWater's extensive expertise in surface water treatment.

A. SaskWater Treated Water Transmission - Saskatoon Area

1 Hague
2 Osler
3 Dalmeny
4 Warman
5 Martensville
6 ERCO Worldwide
7 Industrial Customers
8 Royal View Cattle
9 United Chemicals
10 Grasswood
11 Sunset Estates
12 Clavet
13 Bradwell
14 Allan
15 Elstow

Water Transmission

The water transmission business sources treated water from other utilities and re-sells it, or sources and supplies raw water.

Transmission — Treated Water

This system shown in Diagram A sources water through interconnections with the City of Saskatoon and delivers water to ten communities (Martensville, Warman, Osler, Hague, Dalmeny, Clavet, Bradwell, Allan, Grasswood and Elstow) as well as several industrial customers and many rural households.

SaskWater purchases water for the system shown in Diagram B from the Buffalo Pound Water Administration Board and the City of Regina and supplies it to five communities and rural users. SaskWater operates its own pumping units within the Buffalo Pound Treatment Plant and supplies water to the communities of Bethune,

B. SaskWater Treated Water Transmission - Buffalo Pound Area

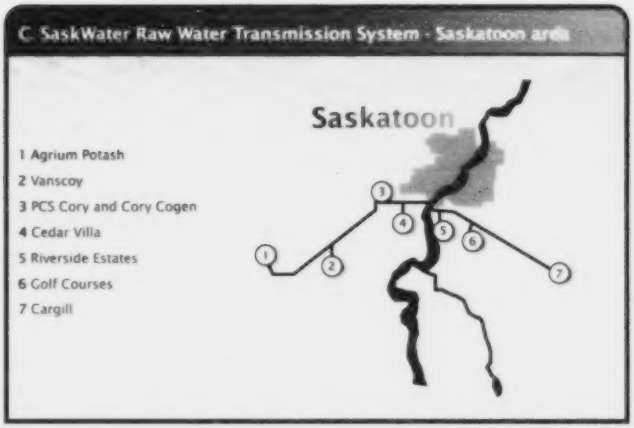
1 Bethune
2 Arm River Colony
3 Disley
4 Marquis
5 Tuxford
6 Simplot Chemicals
7 SaskFerco
8 Grand Coulee

Water Transmission, continued

Disley, Marquis, and Tuxford. As well, SaskWater owns and operates a pipeline that interconnects with the City of Regina's pipeline from the Buffalo Pound Treatment Plant. This SaskWater pipeline delivers water to the Village of Grand Coulee.

Transmission—Raw Water

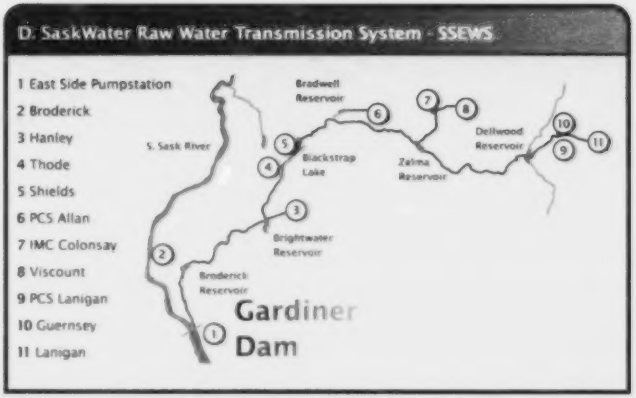
C. SaskWater Raw Water Transmission System - Saskatoon area



The pipeline system shown in Diagram C began operation in the late 1960s and has been expanded ever since. Customers include the Cory Cogeneration Power Station, PCS Cory and Agrium potash mines, three golf courses on the south-east side of Saskatoon, Riverside Estates, Cedar Villa, the Village of Vanscoy, the Cargill Canola Crushing Plant near Clavet, and other smaller industrial customers and rural holdings.

SaskWater's Saskatoon Southeast Water Supply System (SSEWS) shown in Diagram D is a multi-purpose water supply system built in the mid-1960s. It supplies water from Lake Diefenbaker to potash mines, irrigation, and municipalities as well as for recreation and wildlife projects. The system includes 158 km of canals, six reservoirs and a number of associated pipelines. Major industrial and municipal customers include three potash mines and the communities of Hanley, Thode, Shields, Viscount, Guernsey, Lanigan and Broderick.

D. SaskWater Raw Water Transmission System - SSEWS



Water Transmission, continued

The system in Diagram E was constructed in 1994 to supply water from Buffalo Pound Lake to the SaskFerco Fertilizer Plant near Belle Plaine. Each year, SaskFerco uses about the same amount of water as a city the size of Swift Current. The system also supplies water to rural holdings in the area.

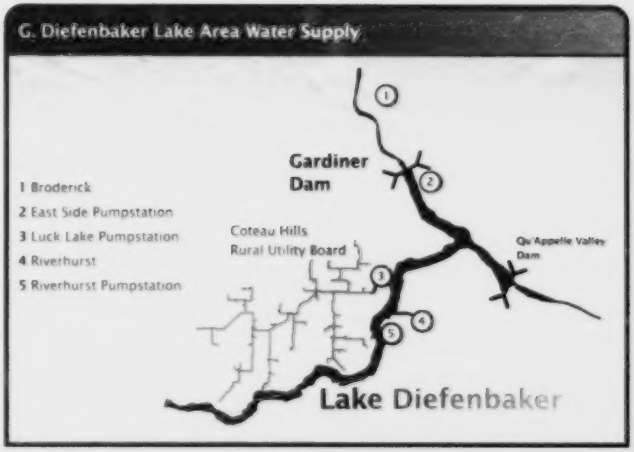
E. SaskWater Raw Water Transmission System - Buffalo Pound area

F. SaskWater Raw Water Transmission System - Regina East

The Zehner Aquifer near Regina supplies water for the system in Diagram F. SaskWater distributes the water to White City, Emerald Park and rural customers.

SaskWater has three irrigation pump stations on Lake Diefenbaker which, in addition to irrigation customers, provide untreated water to the Village of Riverhurst, the Coteau Hills Rural Water Pipeline, the Cutbank Rural Pipeline Utility and other rural customers in the area (as shown in Diagram G).

G. Diefenbaker Lake Area Water Supply



Raw Transmission—Irrigation, Recreation and Wildlife Projects

SaskWater operates works that supply four irrigation districts (a total of 30,000 hectares), individual irrigators, recreation (including Blackstrap Lake) and wildlife projects along the SSEWS system.

Operating Results

SaskWater underwent significant re-structuring in 2002 as result of new legislation proclaimed October 1 of that year. The re-structuring makes it difficult to show direct comparison of operating expenses and results year over year. Therefore, the 2003 Annual Report presents operating results and expenses for 2003 only, the first complete year of operations for the new SaskWater. Water sales volumes are included for 2001-2003.

2003 Operating Revenues and % of revenues

Water Treatment	$ 3,835,000	24%
Water Transmission (Treated)	$ 3,078,000	19%
Water Transmission (Raw)	$ 6,226,000	39%
Water Transmission (Irrigation)	$ 1,337,000	8%
Services*	$ 1,507,000	10%
Total Revenues	**$ 15,983,000**	

* Services include O&M, Project Management, Wastewater Treatment and any other services.

2003 Operating Expenses

Water Treatment	$ 3,194,000
Water Transmission (Treated)	$ 2,307,000
Water Transmission (Raw)	$ 2,491,000
Water Transmission (Irrigation)	$ 1,455,000
Services	$ 1,473,000
Operating Expenses Sub-total	$ 10,920,000
Amortization of Property/Plant/Equipment	$ 2,748,000
Interest	$ 3,563,000
Administrative Expenses	$ 2,136,000
Total Expenses	$ 19,367,000
Profit (Loss)*	**($ 3,384,000)**

* before operating grant

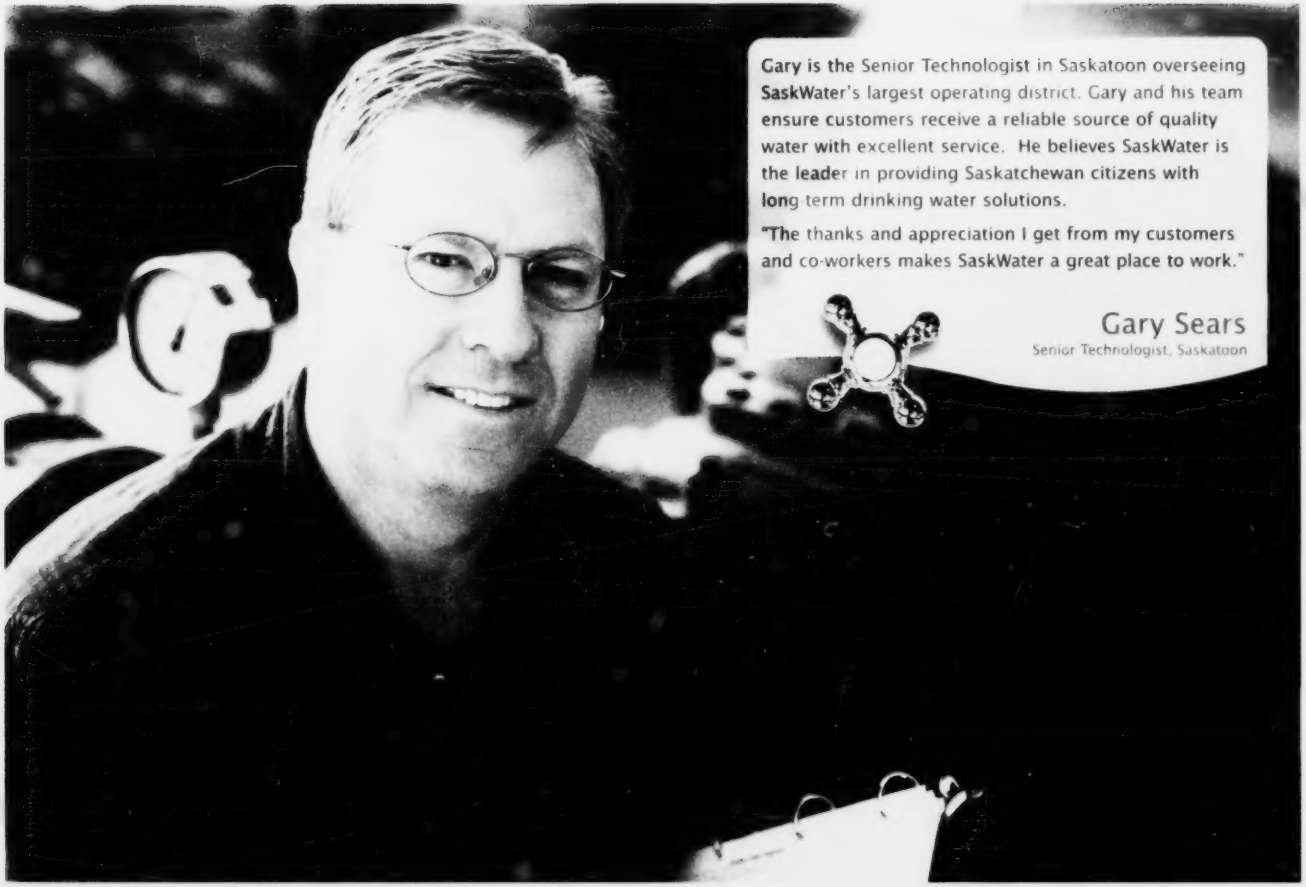
Operating Results, continued

2001/2003 Water Sales Volumes

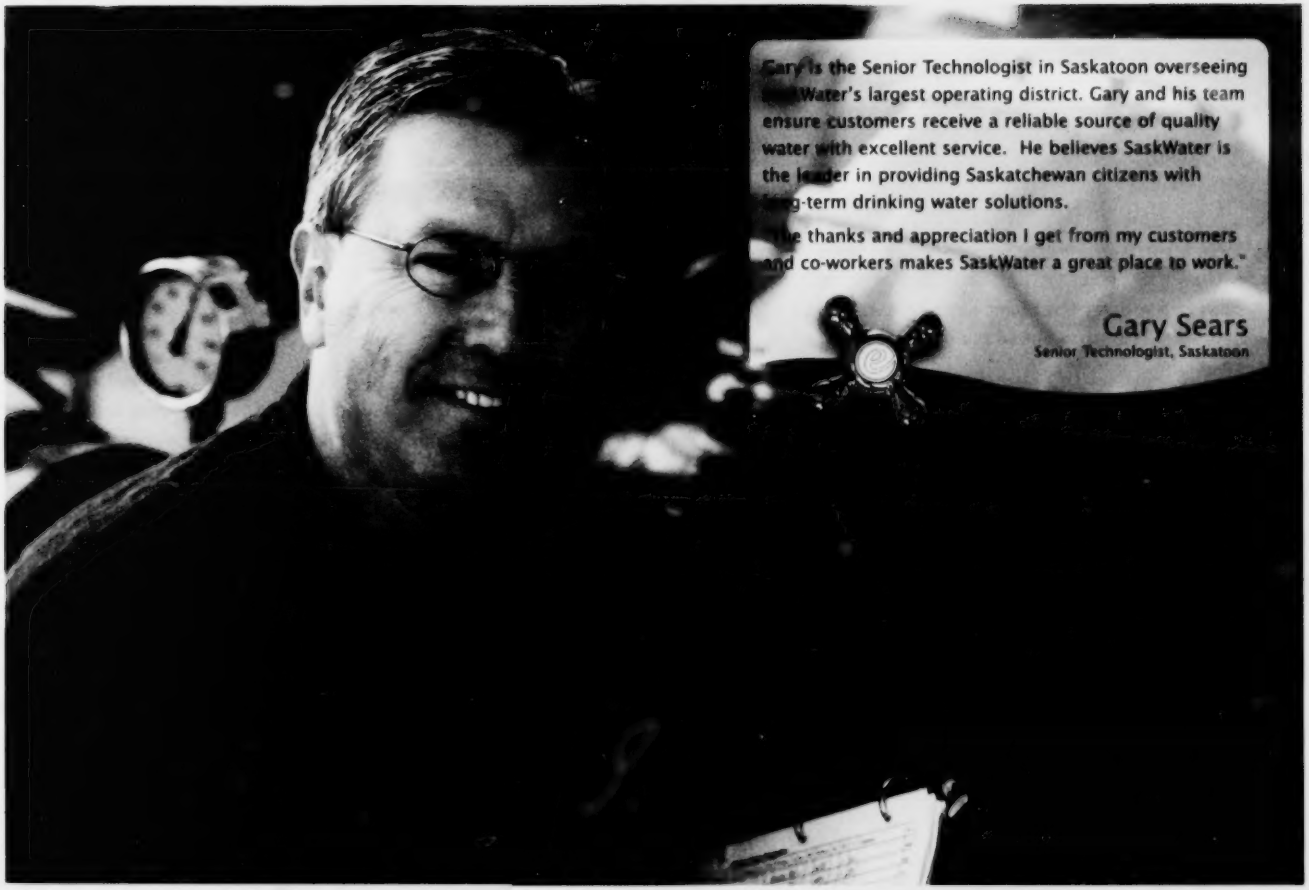
Line of Business	2001 Sales Volume (m^3)	2002 Sales Volume (m^3)	2003 Sales Volume (m^3)	2003-2002 % variance
Water Treatment	2,504,895	2,452,986	2,537,231	3.4%
Water Transmission	15,179,394	14,692,345	16,572,921	12.8%

2003 sales in the water treatment business increased by 3.4%. Of this increase, 2% can be attributed to sales to new municipal customers which came on late in the year (the Town of White City, Cudworth and Star City). The remaining 1.4% reflects normal year-to-year variance in consumption.

2003 sales in the water transmission business increased by 12.8%. Of that increase, about 10% can be attributed to new customers (Cory Co-generation Power Station and the Town of Hague). The remaining increase reflects normal year-to-year variance in consumption.


Gary is the Senior Technologist in Saskatoon overseeing SaskWater's largest operating district. Gary and his team ensure customers receive a reliable source of quality water with excellent service. He believes SaskWater is the leader in providing Saskatchewan citizens with long-term drinking water solutions.
"The thanks and appreciation I get from my customers and co-workers makes SaskWater a great place to work."
Gary Sears
Senior Technologist, Saskatoon

"I enjoy my work at SaskWater. It is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challenging and always changing

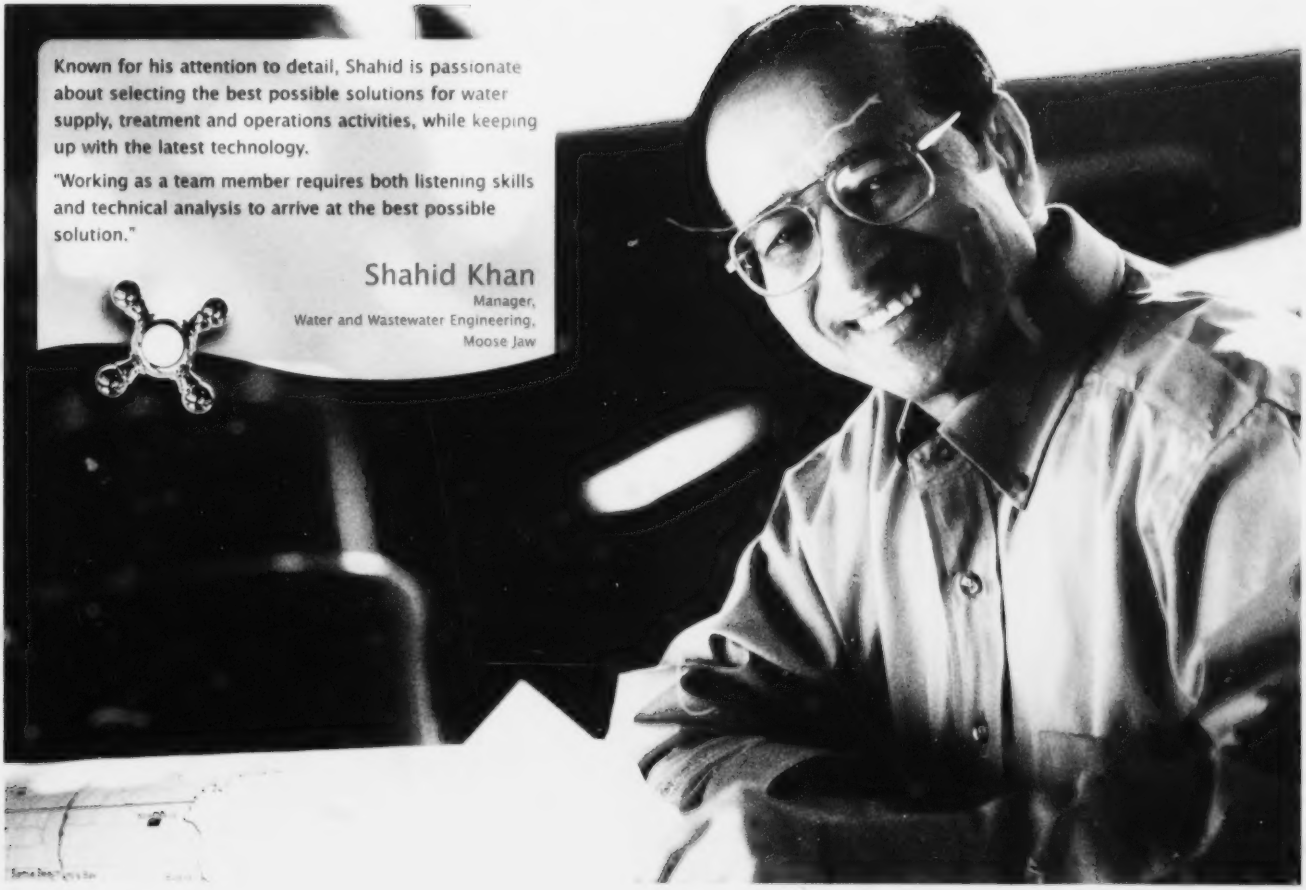
2003 Balanced Scorecard Report

SaskWater is a subsidiary of Crown Investment Corporation and receives strategic direction from CIC. SaskWater's performance management strategy, informed by the Crown Sector Strategic Plan, maintains accountability to the people of Saskatchewan by reporting on key objectives that drive business success. SaskWater's performance objectives and results are described in the Balanced Scorecard Report that follows.

Discussion of Results

Balanced scorecard results varied from the targets in some instances:

- Results of customer satisfaction surveys exceeded all targets.
- SaskWater continues to provide dependable service to its customers; fewer than half the expected number of service interruptions occurred, and those that did occur averaged only 7.5 hours.
- Employee training as a percentage of total employee salaries fell short of the year's target as significant resources continued to be dedicated to activities associated with SaskWater's new business. However, employees attended a series of diversity workshops, exceeding the diversity training target.
- Employee sick days were substantially below the target which was set based on national workforce data.
- Diversity hires for 2003 were 45 percent, 5 percent greater than targeted.
- Establishment of a corporate incident and risk management plan and communication strategy continues, but is somewhat behind schedule. The corporate plan is now being developed in parallel with the individual quality assurance/quality control (QA/QC) plans required by regulation for each SaskWater facility.
- One of SaskWater's customers received a boil water advisory in 2003, the result of mechanical failure of a valve.
- SaskWater invested less money in water infrastructure projects than originally budgeted ($2.86M compared to $9.81M), reflecting implementation of a less aggressive capital investment strategy adopted over the course of the year.



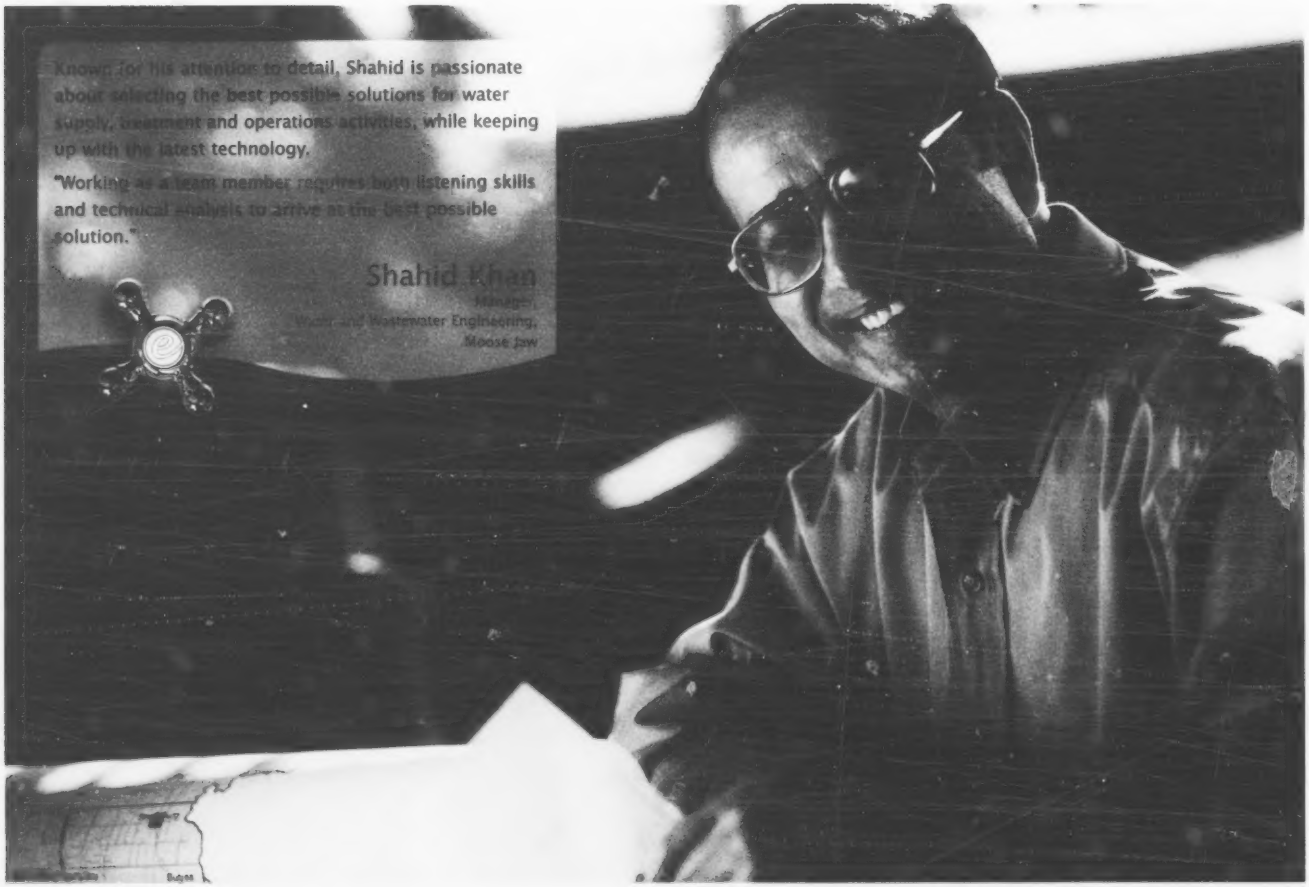
Known for his attention to detail, Shahid is passionate **about selecting the best possible solutions for** water **supply, treatment** and operations **activities,** while keeping **up with the latest** technology.

"Working as a team member requires both listening skills and technical analysis to arrive at the best possible solution."

Shahid Khan

Manager,
Water and Wastewater Engineering,
Moose Jaw

"A new dimension for providing e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Manager,
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nomical solutions for customers"

2003 Balanced Scorecard Report

Leadership & Governance

	Objectives	Measures	Targets 2004	Targets 2003	Results 2003
Enablers	Open communication	Clear, goal driven business plans for all business units	Revisited	Completed	Completion deferred to 2004
		Staff conferences/ updates	Quarterly	Quarterly	3
Outcomes	Leadership excellence	360-degree evaluation index of Executive Team	3.4	3.2[1]	3.6
		Reporting of business unit work achievements	Quarterly	Quarterly	3

Employee Potential, Growth and Satisfaction

	Objectives	Measures	Targets 2004	Targets 2003	Results 2003
Enablers	Enhance employee training	Training $ as % of employee salaries	3.5%	3%	1.2%
		% of employees taking training annually	55%	50%	71%
Outcomes	Build and monitor employee satisfaction	Annual employee satisfaction survey[2]	5.8	5.5	5.7
		Number of employee "sick days" taken[3]	6.3	6.3	3.6

1 A perfect 360 evaluation score is 5.0.

2 An employee satisfaction survey is conducted annually in the 1st Quarter. The survey consists of 11questions scored on a scale of 1 to 10; the indicator is the average of responses to the questions.

3 Average per employee; includes sick days, family leave and bereavement leave.

2003 Balanced Scorecard Report

Corporate Policy & Strategy

	Objectives	Measures	Targets 2004	Targets 2003	Results 2003
Enablers	Manage risks & incidents in a proactive manner	Manage risks & incidents in a proactive manner Establishment of an incident & risk management plan & communications strategy	Complete	Completed	Completion deferred to 2004
Outcomes	Establish operational Partnerships	Number of partnership agreements in place	3	2	2
	Adoption of Total Quality Water Management approach	Annual employee TQWM survey[4]	5.4	5.0	5.35
	Manage irrigation assets & operation in a commercial & sustainable manner	Government approval of irrigation strategy	Accepted	Accepted	In Progress

Resources & Assets

	Objectives	Measures	Targets 2004	Targets 2003	Results 2003
Enablers	Judiciously manage assets	Number of asset management plans	30%	10%	In Progress
Outcomes	Judiciously manage assets	O&M $ to Sales Volume	$2.50/su[5]	$2.50/su	$2.10/su

[4] The employee TQWM survey is conducted annually in the 1st Quarter. It consists of 9 categories with a total of 53 questions scored on a scale of 1 to 10. the indicator is the average of responses to the questions.

[5] 1 su or sales unit equals 1000 imperial gallons

2003 Balanced Scorecard Report continued

Customers

	Objectives	Measures	Targets 2004	Targets 2003	Results 2003
Enablers	Operate the utility to meet customer needs	Number of service interruptions[6]	75	75	36
		Average length of service interruptions (time)	13 hours	14 hours	7.5 hours
	Provide access to safe drinking water	Number of boil water advisories for treated water supplied by SaskWater	0	0	1
	Provide awareness & knowledge of SaskWater products & services	Number of active business contacts with municipal & industrial clients (annual)	119	150	154[7]
	SaskWater projects are done efficiently & effectively	Frequency of SaskWater projects being completed on time	85%	80%	89.6%
		Frequency of SaskWater projects being completed on budget	85%	80%	100%
Outcomes	Customer satisfaction[8]	Industrial customer satisfaction survey	6.4	6.0	8.0
		Community customer satisfaction survey	6.4	6.0	7.5
		Individual customer satisfaction survey	6.4	6.0	9.0

YTD: Year to Date

6 As storage is required of most SaskWater customers, an interruption in supply does not normally mean the customer is without water.

7 Business contacts may not be continuously "active" - typically, some become inactive, some are new, and some are reactivated over the course of the year.

8 Surveys to be undertaken in 3rd Quarter.

2003 Balanced Scorecard Report continued

Public Policy and Purpose

	Objectives	Measures	Targets 2004	Targets 2003	Results 2003
Enablers	Contribute to provincial economic diversification	Percentage of products and services sourced in Saskatchewan	85%	85%	94%
		Value of new infrastructure investments in projects managed by SaskWater[9]	$8.2M	$9.81M	$2.86M
	Increase employee acceptance of diversity	Diversity Training (total employee days)	30	30	30
	Demonstrate leadership on environmental issues	Number of wastewater facilities managed (new)	5	3	4
Outcomes	Build a representative workforce	Percentage of diversity target group hires of total hires	40%	40%	45%
	Contribute to building a skilled Saskatchewan workforce	Number of technology & engineering students hired[10]	5	5	6
	Support Saskatchewan innovation & development	Number of remote monitoring & control systems in use	25	5	15

9 $2.86M does not include $340K spent in asset refurbishment.
Total capital investment in 2003, $3.2M.

10 Placement terms range from 5 to 16 months; students are only hired after May 1.

2003 Balanced Scorecard Report continued

Business Growth

	Objectives	Measures	Targets 2004	Targets 2003	Results 2003
Enablers	Earn an appropriate return on the public's investment	Projected Internal Rate of Return: New Projects-Municipal New Projects-Industrial New Project-Government	 9% 11% 9%	 9% 11% 9%	 9% n/a n/a
	Meet growth targets in all lines of business	New Customers[11]	28	19	27
Outcomes	Ensure debt is kept to a sustainable level	Debt to Debt & Equity ratio[12]	85.5%	73.2%	80.5%
		Return on Equity	-11.3%	-19.3%	-18.7%

11 "New customers" are those within the municipal, project management, waterworks system assessment, operations & maintenance, bulk water supply and bulk water treatment lines of business.

12 Debt load is primarily a product of the Codette Lake and Wakaw-Humboldt regional water supply systems.

Management Discussion and Analysis

2003 Results

- $3.4 million loss before the operating grant of $1.1M received from CIC. (2002 - loss of $3.3 million).
- Net loss of $2.3M after the operating grant.
- Revenues of $16.0 million not including the operating grant of $1.1M. (2002 - $14.5 million) Increased revenues are the result of sales to new customers in the transmission business (Cory Co-generation Power Station and the Town of Hague), rate increases to water treatment customers as specified in their agreements (ranging from 3% to 5%) and normal year-to-year variance in customer usage.
- Capital expenditures of $3.2 million to expand regional systems to serve Star City and Cudworth and purchase the White City water treatment plant (2002 capital expenditures - $5.7 million).
- Interest costs were $3.6 million (2002 - $3.2 million).
- Total water sales increased by 11.5 percent to 4.2 billion gallons. (2002 - 3.77 billion gallons)
- Expenses were $19.4 million (2002 - $16.5 million). In 2002 SaskWater reported 9 months of expenses for a single division of the "old SaskWater" (that is, expenses for the Utility Division only) and 3 months of expenses for the new corporation. (The new corporation was created with legislation proclaimed October 1, 2002.) The 9 months of 2002 expenses reported for SaskWater/Utility Division do not include any expenses for marketing, communication, policy development, research, head office rent, corporate services or human resources. In 2003, expenses include all the costs associated with these activities including office rent, salaries and benefits and the contract that SaskWater has with Saskatchewan Watershed Authority for the provision of Corporate and Human Services.

2004 Outlook

- Net loss is expected to decline to $2.2M before any operating grant from CIC.
- Net water sales revenues are expected to rise as the result of growth in the customer base made in 2003 and new sales in 2004.
- Services revenues are expected to rise as the result of new customers for certified operations & maintenance and project management.
- Interest expenses are projected to be $3.8M.
- SaskWater expects to invest $8.5 million in water and wastewater infrastructure projects in the province.
- SaskWater expects demand for its services to continue to increase as more communities look to the Crown water utility as their solutions provider.

Key Performance Factors

- One-third of revenue is dependant upon raw water sales to industrial customers.
- Weather - drought increases sales.

Key Financial Data

- Total assets of $69.2 million. (2002- $70.1 million)
- SaskWater is not expected to declare a dividend to CIC in 2004.
- Return on equity (earnings after operating grant as a percentage of equity) of negative 17.3 percent.
- Debt ratio (debt as a percentage of debt plus equity) of 80.5 percent.

Management's Responsibility

Management has prepared the financial statements of the Corporation in accordance with Canadian generally accepted accounting principles. The financial data included elsewhere in this report is consistent with the financial statements and the underlying information from which the Corporation prepared these financial statements.

Management has the primary responsibility for the integrity and objectivity of the financial statements. To fulfill this responsibility, the Corporation maintains appropriate systems of internal controls, policies and procedures. These systems provide reasonable assurance that assets are safeguarded and that the books and records reflect the authorized transactions of the Corporation.

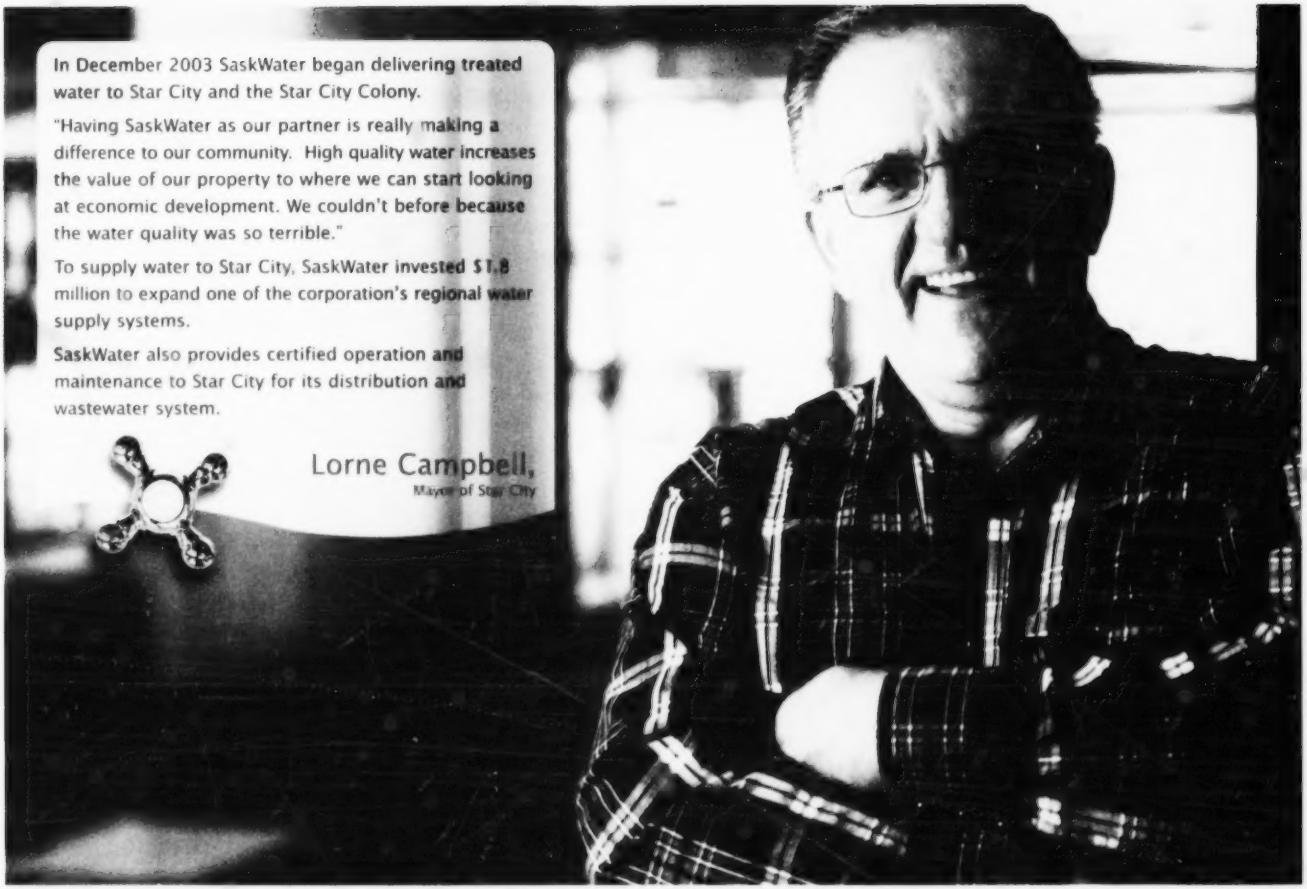
Meyers Norris Penny LLP, the Corporation's external auditors, have examined the December 31, 2003 financial statements and their report follows.

The Board of Directors of SaskWater has examined and approved the statements.

On behalf of the Corporation,

Stuart Kramer

President
January 30, 2004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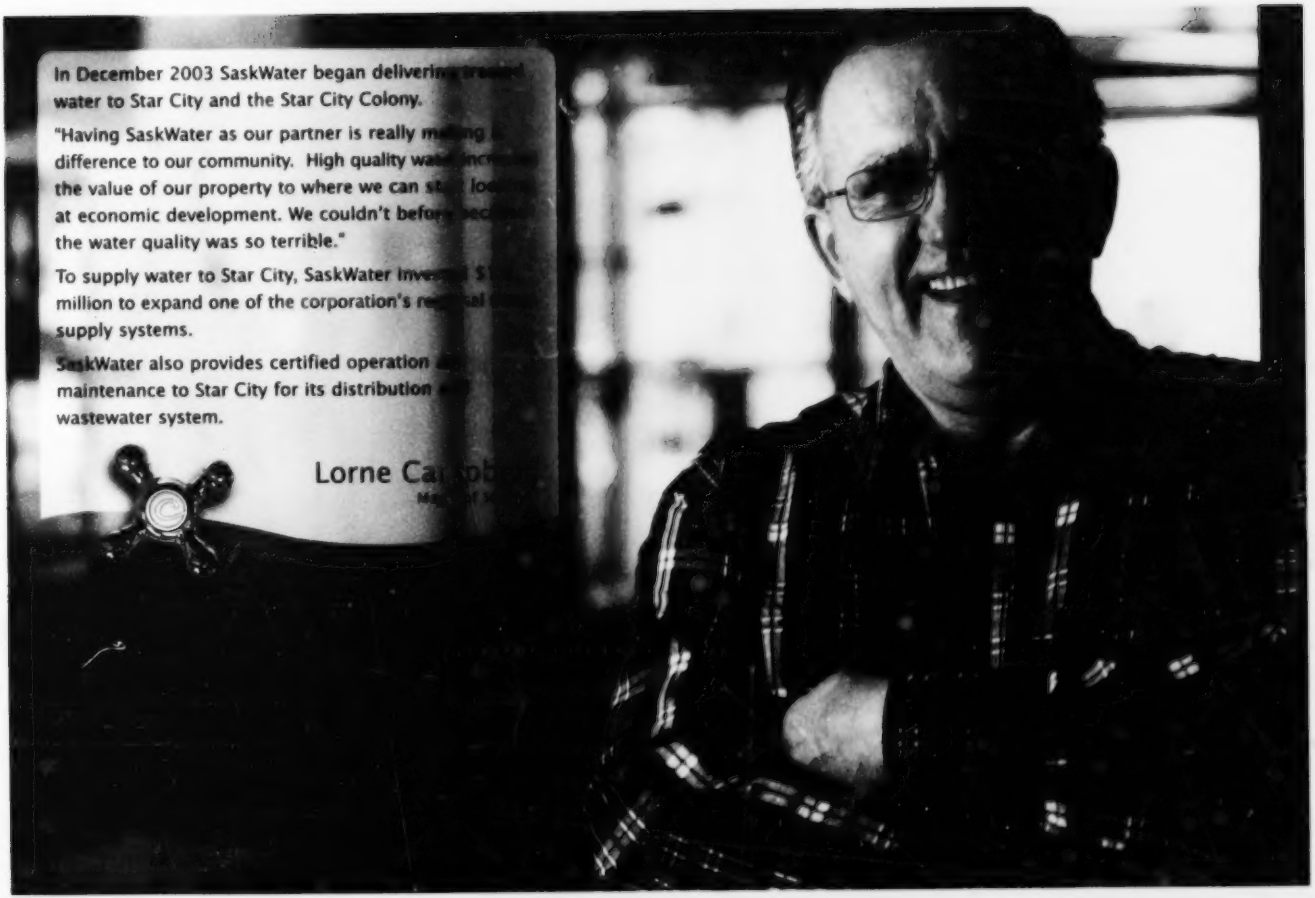
"Having SaskWater as our partner is really making a difference to our community. High quality water increases the value of our property to where we can start looking at economic development. We couldn't before because the water quality was so terrible."
To supply water to Star City, SaskWater invested $1.8 million to expand one of the corporation's regional water supply systems.
SaskWater also provides certified operation and maintenance to Star City for its distribution and wastewater system.
Lorne Campbell,
Mayor of Star City

"Our water improved 100%, Sas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SaskWater also provides certified operation and maintenance to Star City for its distribution and wastewater system.
Lorne Ca

Auditors' Report

To the Members of the Legislative Assembly
Province of Saskatchewan

We have audited the statement of financial position of **Saskatchewan Water Corporation** as at December 31, 2003 and the statements of operations and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Saskatchewan Water Corporation as at December 31, 2003 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Meyers Norris Penny LLP

Chartered Accountants

Regina, Saskatchewan
January 30, 2004

Statement of Financial Position as at December 31

	2003	2002
	(Thousands of Dollars)	
Assets		
Current assets		
Accounts receivable and advances	$ 2,580	$ 3,927
Prepaid expenses and supplies	254	190
Current portion of long-term receivables (note 4)	14	12
	2,848	4,129
Long-Term Receivables (note 4)	67	81
Property, Plant and Equipment (note 5)	66,273	65,844
	$ 69,188	$ 70,054
Liabilities and Province of Saskatchewan's Equity		
Current liabilities		
Bank indebtedness	$ 54	$ 121
Accounts payable and accrued liabilities	2,529	2,227
Notes payable (note 6)	13,395	10,383
Current portion of long-term debt (note 8)	764	714
	16,742	13,445
Deferred Revenue and Prepayments (note 7)	2,680	3,313
Long-Term Debt (note 8)	37,258	38,522
Other Long-term Obligations (note 9)	245	227
	56,925	55,507
Province of Saskatchewan's Equity		
Equity advance (note 10)	700	700
Contributed surplus	1,346	1,346
Retained earnings	10,217	12,501
	12,263	14,547
	$ 69,188	$ 70,054

Commitments and Contingencies (note 11)

See accompanying notes

on behalf of the Board:

Murray Westby
Acting Chair

Director

Statement of Operations and Retained Earnings year ended December 31

	2003	2002
	(Thousands of Dollars)	
Revenue		
Water Transmission and Supply	$ 10,641	$ 9,522
Water Treatment and Supply	3,835	3,566
Wastewater Treatment	127	125
Operation and Maintenance	32	-
Services	949	907
Other	399	396
	15,983	14,516
Expenses		
Operations	13,056	10,864
Amortization of property, plant and equipment	2,748	2,434
Interest	3,563	3,191
	19,367	16,489
Loss before the following	(3,384)	(1,973)
Operating grant (note 12)	1,100	-
Loss from discontinued operations (note 3)	-	(1,318)
Net Loss	(2,284)	(3,291)
Retained Earnings, Beginning of Year	12,501	15,792
Retained Earnings, End of Year	$ 10,217	$ 12,501

See accompanying notes

Statement of Cash Flows year ended December 31

	2003	2002
	(Thousands of Dollars)	
Operating activities		
Net Loss	$ (2,284)	$ (3,291)
Charges and credits not affecting cash:		
Amortization of property, plant and equipment	2,748	2,679
Amortization of deferred revenue and prepayments	(634)	(724)
Amortization of premium	(37)	(43)
Sinking fund earnings	(198)	(178)
Gain on disposal of property, plant and equipment	-	(31)
Provision for PAWBED Loans	-	345
Net Changes in non-cash working capital balances relating to operations:		
Deferred funding	-	(234)
Deferred revenue and prepayments	38	217
Other	1,601	(1,447)
Cash used in operating activities	1,234	(2,707)
Investing activities		
Long-term receivables	14	95
Property, plant and equipment expenditures	(3,177)	(5,686)
Proceeds on disposal of property, plant and equipment	-	40
Cash used in investing activities	(3,163)	(5,551)
Financing activities		
Proceeds from long-term debt	-	4,500
Proceeds from notes payable	3,012	5,135
Retire long-term debt	(714)	(669)
Sinking fund installments	(302)	(302)
Cash provided by financing activities	1,996	8,664
Increase in Cash	67	406
Bank Indebtedness, Beginning of Year	(121)	(527)
Bank Indebtedness, End of Year	$ (54)	$ (121)
Interest paid during the year	$ 3,479	$ 3,345

See accompanying notes

Notes to the Financial Statements December 31, 2003

1. Status of the Corporation

The Saskatchewan Water Corporation (the Corporation) was established on July 1, 1984, under the authority of **The Water Corporation Act** which remained in effect until September 30, 2002.

On October 1, 2002 **The Saskatchewan Water Corporation Act** was proclaimed.

By virtue of **The Crown Corporations Act, 1993,** the Corporation has been designated as a subsidiary of Crown Investments Corporation of Saskatchewan (CIC). Accordingly, the financial results of the Corporation are included in the consolidated financial statements of CIC, a Provincial Crown corporation. As the Corporation is a Provincial Crown corporation, it is not subject to Federal or Provincial income taxes in Canada, but is subject to Provincial corporate capital tax.

In accordance with the provisions of **The Saskatchewan Water Corporation Act**, the Corporation's general powers and purposes are to construct, acquire, manage or operate works and to provide services in accordance with any agreements that it enters into pursuant to this Act.

2. Significant Accounting Policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include certain estimates based on management's judgement. These estimates affect the reported amounts of assets, liabilities, revenue and expenses. The following accounting policies are considered to be significant:

Capitalization of Expenses

Internally provided engineering and technical services are capitalized at standard labour rates designed to recover salaries, benefits and overhead. The objective of this policy is to recognize the approximate value of design, supervision and administrative services rendered by Corporation employees on construction projects. Internally provided services capitalized amounted to $479,500 (2002 - $294,900). As well, the Corporation capitalizes interest expense on debt relating to specific construction projects until they are substantially completed. During the year, $15,700 (2002 - $58,000) in interest was capitalized.

Property, Plant and Equipment

Property, Plant and Equipment are recorded at cost to the extent that these costs are recoverable from future operations. Assets under construction are capitalized at cost, and are transferred to the appropriate asset category when construction is complete and the asset is in use. Assets are capitalized at cost net of any subsidies or contributions received for that specific purpose.

Amortization of Property, Plant and Equipment is calculated at the following annual rates designed to amortize the recorded cost over the estimated useful lives of the capital assets. Assets under construction transferred to the appropriate asset category before June 30th are amortized for the full year, otherwise they are not amortized until the following year.

In December 2002, the CICA issued Handbook Section 3063, "Impairment of Long-Lived Assets". The Corporation early adopted these new recommendations on a prospective basis effective January 1, 2003. The most significant change under the new recommendation is that impairment losses on long-lived assets be recognized when the carrying amount of an asset exceeds the projected future net cash flows expected from its use and is measured as the amount by which the carrying value of the assets exceeds their fair value. The Corporation reviews assets for impairment on a regular basis or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Recoverability is assessed by comparing the carrying amount to the projected future net cash flows the long-lived assets are expected to generate. The results of the recoverability test indicate that the Corporation's long-lived assets are not impaired.

Property, Plant and Equipment	Method	Rate
Building	straight-line	2.5% to 5%
Water facilities	diminishing balance or straight-line, as appropriate	2% to 30%
Maintenance and Office Equipment	diminishing balance or straight-line, as appropriate	10% to 30%

Post Retirement Benefits Other Than Pension

The Corporation administers a benefit relating to a retirement allowance which is paid to eligible employees upon retirement. The Corporation has adopted the accrual method of accounting for this benefit whereby the cost of providing the benefits is recorded when the related services of employees are performed.

Use of Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues are amortized based on estimated useful lives. These assumptions are reviewed periodically and, as adjustments become necessary, they are reported in earnings in the period in which they become known.

3. Discontinued Operations

On October 1, 2002, the Corporation transferred involvement in water management activities to the Saskatchewan Watershed Authority. These activities include the operations, maintenance and rehabilitation of provincially-owned water infrastructure including dams, weirs and conveyance channels, as well as the hydrometric forecasting and regulatory functions of the Corporation. As well, irrigation programming activities were transferred to Saskatchewan Agriculture, Food and Rural Revitalization (SAFRR) from the Corporation.

Effective this date, assets and liabilities relating to these activities were transferred to the respective related parties at their net book value.

For reporting purposes in 2002, the results and financial position of these business segments were presented as discontinued operations.

Notes to the Financial Statements December 31, 2003

4. Long-Term Receivables

	2003	2002
	(Thousands of Dollars)	
Year Receivable		
2003	$ -	$ 12
2004	14	14
2005	11	11
2006	12	12
2007	13	13
2008	15	15
2009 and subsequent	16	16
	81	93
Less: Current portion on long-term receivables	(14)	(12)
	$ 67	$ 81

Amounts in this account represent loans issued to various clients for water supply agreements repayable over the next several years.

5. Property, Plant and Equipment

			2003	2002
			(Thousands of Dollars)	
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land	$ 1,545	$ -	$ 1,545	$ 1,545
Buildings	1,276	607	669	573
Water facilities	94,491	31,312	63,179	63,026
Maintenance equipment	1,972	1,251	721	645
Office equipment	218	179	39	55
Assets under construction	120	-	120	-
	$ 99,622	$ 33,349	$ 66,273	$ 65,844

Notes to the Financial Statements December 31, 2003 continued

6. Notes Payable

Due Date	Interest Rate	2003	2002
		(Thousands of Dollars)	
March 31, 2004	2.62%	$ 13,395	$ -
March 31, 2003	2.74%	-	10,383
		$ 13,395	$ 10,383

By Order-in-Council, SaskWater is authorized to borrow up to $18,000,000 by way of temporary loans from the Province of Saskatchewan - General Revenue Fund.

7. Deferred Revenue and Prepayments

Deferred revenue and prepayments, in part, represent revenue received from certain customers at the commencement of supply. These prepayments are amortized into revenue at 5% per annum on a straight-line basis or are matched against annual expenses.

Premium and issue costs relating to long-term debt are deferred and amortized on a straight-line basis over the term of the respective debt issue.

	2003	2002
	(Thousands of Dollars)	
Balance, beginning of year	$ 3,313	$ 4,997
Contributions received	38	217
Amortization of revenue	(195)	(186)
Amortization of premiums	(37)	(43)
Amortization of prepayments	(439)	(538)
Transferred to Saskatchewan Watershed Authority	-	(1,134)
Balance, end of year	$ 2,680	$ 3,313

Notes to the Financial Statements December 31, 2003 continued

8. Long-Term Debt

Year Payable	Interest Rate	2003	2002
		(Thousands of Dollars)	
2003	7.250%	$ -	$ 714
2004	7.375%	764	764
2005	7.500%	7,618	7,618
2006	7.500%	876	876
2007	7.625%	940	940
2008	7.750%	1,009	1,009
2009	4.750% / 7.875%	5,585	5,585
2010-2016	8.071%	10,309	10,309
2022	9.600%	15,000	15,000
		$ 42,101	$ 42,815
Less: Current portion of long-term debt		(764)	(714)
Less: Equity in sinking funds		(4,079)	(3,579)
		$ 37,258	$ 38,522

These loans are due in the year payable to the General Revenue Fund with interest payable semi-annually. Minimum sinking fund installments required over the next five years are $218,000 per year.

9. Other Long-Term Obligations

	2003	2002
	(Thousands of Dollars)	
Retirement allowance	$ 245	$ 227

This unfunded employee benefit is discounted at an interest rate of 4.75% (2002 - 5.50%). The amount of allowances disbursed in the year were $25,500 (2002 - $43,900).

10. Equity Advance

The Corporation does not have share capital. However, the Corporation has received advances from CIC to form its equity capitalization. The advances reflect an equity investment in the Corporation by CIC.

11. Commitments and Contingencies

Contractual Commitments

As of December 31, 2003, the Corporation has outstanding commitments of $221,528 (2002 - $142,949) for construction contracts and consulting agreements primarily relating to assets under construction.

Leases

The Corporation has entered into various operating lease agreements with the following minimum lease payments:

	(Thousands of Dollars)
2004	$ 5
2005	-
2006	-
2007	-
2008	-
2009 and subsequent	-
	$ 5

Litigation

The Corporation is party to a number of lawsuits and has provided for these claims in its accounts in accordance with management's best estimates and the advice received from legal counsel. The Corporation intends to account for any differences which may arise, between amounts provided and amounts expended, in the period in which the claims are resolved.

12. Operating Grant

Order in Council # 759/2003 authorizes the Corporation to receive grant funding up to $1,100,000 for operating requirements in 2003. During the year, the Corporation received $1,100,000 (2002 - $0) from CIC.

13. Related Party Transactions

Included in these financial statements are transactions with various Saskatchewan Crown corporations, departments, agencies, boards and commissions related to the Corporation by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan (collectively referred to as "related parties").

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms except for revenue which is at rates negotiated between SaskWater and related parties. These transactions, and amounts outstanding at year end, are as follows:

Notes to the Financial Statements December 31, 2003 continued

13. Related Party Transactions continued

	2003	2002
	(Thousands of Dollars)	
Accounts receivable	$ 277	$ 1,704
Accounts payable and accrued liabilities	1,222	1,212
Revenue	3,158	7,436
Expenses	8,962	7,963

In addition, the Corporation pays Saskatchewan Provincial Sales Tax, to the Saskatchewan Department of Finance on all its taxable purchases. Taxes paid are recorded as part of the cost of those purchases.

Other amounts and transactions due to and from related parties and the terms of settlement are described separately in these financial statements and the notes thereto.

14. Pension Plan

SaskWater's employees participate in the Capital Pension Plan (the Plan), a defined contribution pension plan which is administered by CIC. The Corporation's contributions to the Plan include making regular payments into the Plan to match the required amounts contributed by employees for current service. The total amount paid to the Plan for 2003 was $199,000 (2002 - $489,500).

15. Financial Instruments

The Corporation's recognized financial instruments consist of bank indebtedness, accounts receivable and advances, long-term receivables, accounts payable and accrued liabilities, long-term obligations, long-term debt, and notes payable.

Credit Risk

The Corporation is exposed to credit risk from the potential default of customers. However, approximately one-half of the Corporation's accounts receivable are from municipalities, large industrial customers and other government agencies.

Fair Values

The fair values of short-term accounts receivable and all accounts and notes payable approximate their carrying value due to the short-term nature of these instruments.

15. Financial Instruments continued

	2003		2002	
	(Thousands of Dollars)			
	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term accounts receivable	$ 67	$ 81	$ 81	$ 100
Long-term debt	42,101	49,997	42,815	56,444
Sinking Fund	4,079	4,329	3,579	3,742

The estimated fair values of these financial instruments have been determined based on the following methods and assumptions, and may not represent the amounts that could be realized upon settlement.

All long-term debt obligations and long-term receivables are estimated using discounted cash flow analysis based on current incremental borrowing rates for similar borrowing arrangements.

Fair values of other long-term obligations approximate their carrying values. These were estimated using current discount rates.

16. Comparative Figures

Certain of the comparative figures have been reclassified to conform with the current year's presentation.

Board of Directors

Standing from left to right: Frank Fox, Dale Bloom, **Corporate Secretary,** Steve Helfrick, Dennis Zerr, Susan Anholt

Seated, left to right: Donnett Elder, **Acting Vice-Chair,** Dan Palsich, Joe Hordyski, Stuart Kramer, Murray Westby, **Acting Chair**

Corporate Governance

A. Authority

SaskWater is a statutory Crown corporation which is governed by The Saskatchewan Water Corporation Act. The Board of Directors oversees the management of the Corporation and holds management accountable for the Corporation's performance. The Chair and Vice-Chair are unrelated directors. The Board reports to the Crown Management Board.

B. Board Responsibilities

The Board is responsible for the stewardship of the Corporation. In carrying out this responsibility, the Board participates in the Corporation's strategic planning process each year and approves the strategic direction and corporate plan. The Board also exercises its responsibility to oversee and ensure adherence to SaskWater's mandate. The Board met eight times during fiscal 2003.

C. Committees

The Board established the following two committees to assist in discharging specific areas of Board responsibility:

- Audit and Finance Committee

Dennis Zerr (Chair), Dan Palsich, Murray Westby, Joe Hordyski

The Audit and Finance Committee mandate is to assist the Board of Directors in meeting their responsibilities with respect to financial reporting, internal control and accountability. In addition, it ensures that the Board is provided with financial plans and proposals consistent with the Corporation's overall strategic plan and policy objectives. The Audit and Finance Committee met seven times during fiscal 2003.

- Governance Committee

Donnett Elder (Chair), Susan Anholt, Frank Fox, Steve Helfrick

The Governance Committee is responsible for the development and maintenance of SaskWater's corporate governance practices. Among other things, its duties include evaluating the performance of the Board and CEO and establishing appropriate board and board committee structure, composition and mandate. The Governance committee also works closely with Management assisting the Board with its responsibilities for strategic planning.
The Governance Committee met four times during fiscal 2003.

D. Governance Practices

SaskWater's approach to corporate governance practices is substantially consistent with the guidelines set forth in the Canadian Institute of Chartered Accountants (CICA) handbook - Guidance for Directors, Governance Processes for Control, which guidelines were adopted by the Board of Governors of the Toronto Stock Exchange. These guidelines address the key areas of responsibility for effective corporate governance, including responsibility for stewardship of the Corporation, the Board's role in working with management and the functioning of the Board. SaskWater's corporate governance practices are benchmarked against the Toronto Stock Exchange (TSX) Guidelines in the following Governance Scorecard.

Corporate Governance continued

TSX Corporate Governance Committee's Guidelines	SaskWater's Corporate Governance Practices
1. The Board should explicitly assume responsibility for the stewardship of the Corporation, specifically for:	
(a) Adoption of a strategic planning process:	The Board of Directors has a formal mandate with responsibility to function as stewards of the Corporation. One of the Board's principal duties is to provide leadership in setting the Corporation's long-range strategic direction and to approve the Corporation's overall strategic plan and performance management plan. The Corporation's comprehensive strategic planning process results in the annual review and approval by the Board of the Corporation's strategic plan, annual operating and capital budget and financial plan, and performance management plan. In addition, the Board conducts an annual two-day comprehensive strategy session with Senior Management, at which the Board reviews business plans, and short-term and long-term objectives for the Corporation, including discussing and approving strategies to meet these objectives. Consistent with TSX Guidelines: **Yes.**
(b) The identification of the principal risks of the Corporation's business and ensuring the implementation of appropriate systems to manage these risks.	The Board identifies the principal risks of the Corporation on an annual basis and monitors the Corporation's risk management programs, in addition to overseeing the implementation of appropriate systems to manage those risks. Consistent with TSX Guidelines: **Yes.**
(c) Succession planning, including appointing, training and monitoring senior management:	SaskWater is in the process of developing a succession plan for senior management. Consistent with TSX Guidelines: **Partially**

Corporate Governance continued

TSX Corporate Governance Committee's Guidelines	SaskWater's Corporate Governance Practices
(d) A communications policy for the Corporation:	Although there is no formal written policy, SaskWater is committed to the principles of transparency, openness, honesty and timeliness in communication with its shareholder, employees, stakeholders and the public. Consistent with TSX Guidelines: **Yes.**
(e) The integrity of the Corporation's internal control and management information systems:	The Audit and Finance Committee is responsible for the financial reporting, internal control and accountability of the Corporation. This Committee reviews the integrity of the internal controls and financial management information systems in conjunction with the internal and external auditors. Consistent with TSX Guidelines: **Yes.**
2. The Board of Directors of every Corporation should be constituted with a majority of individuals who qualify as unrelated directors (i.e. one who is independent of management and is free from any interest in any business or other relationship which could, or could reasonably be perceived to, materially interfere with the directors' ability to act with a view to the best interest of the Corporation, other than interests and relationships arising from shareholding):	Stuart Kramer, President, was the only related Board member and he left the Board December 31, 2003. ("Unrelated" Board members do not receive any kind of remuneration from the Corporation other than fees and compensation paid for performance of responsibilities as Directors and committee members.) Without Mr. Kramer, there were 8 individuals on the Board at year end. Consistent with TSX Guidelines: **Yes.**
3. Disclosure of significant shareholders (ability to exercise a majority of votes to elect directors):	SaskWater is a statutory Crown corporation and does not have any share capital. Consistent with TSX Guidelines: **Not applicable**

Corporate Governance continued

TSX Corporate Governance Committee's Guidelines	SaskWater's Corporate Governance Practices
4. The board is required to disclose on an annual basis the analysis of the application of the principles supporting the conclusion of whether the director is related or an unrelated director:	Susan Anholt: UNRELATED Independent business person Donnett Elder, Acting Vice-Chair: UNRELATED Independent business person Frank Fox: UNRELATED Senior Technologist, Saskatchewan Watershed Authority Past-President, Local 820, CEP Steve Helfrick: UNRELATED Independent Business Person Joe Hordyski: UNRELATED Independent Business Person Stuart Kramer: RELATED President (Mr. Kramer continues as President, but left the Board effective December 31, 2003.) Dan Palsich: UNRELATED Retired Educator Murray Westby, Acting Chair: UNRELATED Independent Business Person Dennis Zerr: UNRELATED Manager, SaskTel Consistent with TSX Guidelines: **Yes.**

Corporate Governance continued

TSX Corporate Governance Committee's Guidelines	SaskWater's Corporate Governance Practices
5. The board of directors of every Corporation should appoint a committee of directors composed exclusively of outside directors, ie. Non-management, the majority of whom are unrelated directors, with responsibility for proposing to the full board new nominees to the board and for assessing directors on an on-going basis:	The Governance Committee has responsibility to make recommendations to the Board on the size, composition and required qualifications of the Board of Directors. All of the Governance Committee members are outside, unrelated directors. Consistent with TSX Guidelines: **Yes.**
6. Every board of directors should implement a process to be carried out by the nominating committee or other appropriate committee, for assessing the effectiveness of the board as a whole, the committees of the board and the contribution of individual directors:	The Governance Committee is responsible for implementation of a performance evaluation of the Board of Directors, each Committee, and individual Directors. The results are summarized and reported to the Board of Directors, as well as the Crown Management Board. Consistent with TSX Guidelines: **Yes.**
7. Every Corporation, as an integral element of the process for appointing new directors, should provide an orientation and education program for new recruits to the board:	SaskWater provides orientation material to new Board members. As part of the ongoing training for Board members, Crown Investments Corporation of Saskatchewan has facilitated training sessions for Board members in 2003. Consistent with TSX Guidelines: **Yes.**
8. Every board of directors should examine its size and, with a view to determining the impact of the number upon effectiveness, undertake where appropriate, a program to reduce the number of directors to a number which facilitates more effective decision-making:	SaskWater's Governance Committee is responsible for annually assessing the size, composition and required qualifications of the Board to determine whether it has all the necessary constituents for effective decision-making. Consistent with TSX Guidelines: **Yes.**

Corporate Governance continued

TSX Corporate Governance Committee's Guidelines	SaskWater's Corporate Governance Practices
9. The board of directors should review the adequacy and form of the compensation of directors and ensure the compensation realistically reflects the responsibilities and risk involved in being an effective director:	The Governance Committee is responsible for reviewing the compensation for the Board members and the Chair, and recommending to Crown Investments Corporation for approval any proposed adjustments to compensatic n levels. Crown Investments Corporation of Saskatchewan is mandated by legislation to fix the remuneration and rate of reimbursement for expenses of directors. Consistent with TSX Guidelines: **Yes.**
10. (a) A committee should be generally composed of non-management directors: (b) The majority of committee members should be unrelated:	Committees are comprised solely of non-management and unrelated members. Consistent with TSX Guidelines: **Yes.**
11. Every board of directors should expressly assume responsibility for or assign to a committee of directors the general responsibility for developing the Corporation's approach to governance issues. This committee would, amongst other things, be responsible for the Corporation's response to these governance guidelines:	Committee members are unrelated. The Governance Committee is mandated to be responsible to the Board for governance of SaskWater, including issues related to governance and conflict of interest involving Directors and Senior Executives. The Governance Committee has reviewed and approved this report. Consistent with TSX Guidelines: **Yes.**
12. (a) The board of directors, together with the CEO, should develop position descriptions for the board and for the CEO involving the definition of the limits to management's responsibilities:	The Board of Directors has approved policies for the execution of documents and expenditure authorities for the CEO and Senior Management. These policies outline the limits to Senior Management's authorities and the levels for which matters must receive Board of Directors approval. Consistent with TSX Guidelines: **Partially.**

Corporate Governance continued

TSX Corporate Governance Committee's Guidelines	SaskWater's Corporate Governance Practices
12. (b) The board should approve or develop the Corporation's objectives which the CEO is responsible for meeting.	The Governance Committee annually reviews with the CEO the performance management plan that sets performance targets for the Corporation. Consistent with TSX Guidelines: **Yes.**
13. Every board of directors should have in place appropriate structures and procedures to ensure that the board can function independently of management:	The Board structure at SaskWater is such that the Chair of the Board is unrelated. The Board meeting procedures are such that at each meeting the Board conducts an in-camera session whereby Management, including the President, is excused from the meeting. Consistent with TSX Guidelines: **Yes.**
14. The audit committee of every board of directors should be composed only of outside directors. The roles and responsibilities of the audit committee should be specifically defined so as to provide appropriate guidance to committee members as to their duties. The audit committee should have direct communication channels with the internal and external auditors to discuss and review specific issues, as appropriate. The audit committee's duties should include oversight responsibility for management reporting on internal control. It is the responsibility of the audit committee to ensure that management has designed and implemented an effective system of internal control:	SaskWater's Audit and Finance Committee has a mandate to: • Review with Management and external auditor, and recommend to the Board for approval, the Annual Audited Financial Statements of the Corporation. • Review and recommend for approval of the Board the Management discussion and analysis section of the Annual Reports, as well as any other disclosure documents containing financial statements of the Corporation. • Review the semi-annual financial statements. • Review annually the results of the external auditors review of the Corporation's financial record. • Review the results of the reports of the internal and external auditor with respect to the state of the Corporation's internal control systems. • Review the quality of service and the performance of the external auditor and recommend the appointment or reappointment of an external auditor. • Review and approve the plans of the Corporation's internal auditor.

Corporate Governance continued

TSX Corporate Governance Committee's Guidelines	SaskWater's Corporate Governance Practices
14. Cont'd	• Review financial forecasts and changes to the annual depreciation rates, major investments and the insurable risks and insurance coverage of the Corporation. • Review annually the efficacy of the Corporation's policies relating to execution of documents and expenditure. Consistent with TSX Guidelines: **Yes.**
15. The board of directors should implement a system which enables an individual director to engage an outside advisor at the expense of the Corporation in appropriate circumstances. The engagement of an outside advisor should be subject to the approval of an appropriate committee of the board:	The Board or any Committee of the Board may obtain the advice and counsel of external advisors if, in the opinion of the Board or Committee, it is necessary in order to properly discharge their function, duties and responsibilities that such advisor be engaged. Consistent with TSX Guidelines: **Yes.**

Corporate Directory

Stuart Kramer, **President**

Marketing and Business Development

Greg Argue, **Vice President, Marketing and Business Development**

Ron Blackwell, **Manager, Policy, Planning and Quality Management**

Felechia Brodie, **Manager, Marketing and Communication**

Karen Daku, **Senior Manager, Business Development**

Engineering

Bob Wheatley, **Vice President, Engineering**

Glen Gillis, **Manager, Northern Engineering**

Shahid Khan, **Manager, Water and Wastewater Engineering**

Eric Light, **Manager, Process Refinement and Innovation**

Jeff Mander, **Manager, Project Engineering**

Water Supply and Treatment

Mart Cram, **Acting Vice President, Water Supply and Treatment**

Al McMillan, **Director, Water Treatment Operations**

Corporate and Human Services

Sharilee Fossum, **Executive Director**

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